2003/2004: Report 3

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Adopting Best Practices in Government Financial Statements – 2002/2003

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The Honourable Claude Richmond
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
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Dear Sir:

I have the honour to transmit herewith to the Legislative Assembly of British Columbia my 2003/2004 Report 3: Adopting Best Practices in Government Financial Statements 2002/2003.

Wayne Strelioff

Wayne Strelioff, CA
Auditor General

Victoria, British Columbia
November 2003

copy: Mr. E. George MacMinn, Q.C.
Clerk of the Legislative Assembly

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As well, more than 62 other staff and contractors of the Office took part in the audit of the Summary Financial Statements and in the separate audits of various government organizations that are included in the government reporting entity.

Auditor General's Overview

Wayne Strelioff, CA
Auditor General

In this report, I present my findings on the government's progress during 2002/03 in adopting best practices in its financial accountability to the public.

An important element of these best practices—Generally Accepted Accounting Principles (GAAP)—is the concepts and standards of financial accountability recommended by the Canadian Institute of Chartered Accountants. The GAAP provide, in effect, financial accounting and reporting "ground rules" for the Summary Financial Statements and the financial statements of all Crown corporations and other organizations making up the government reporting entity.

I am encouraged to see the continued progress being made by the government in fully adopting GAAP and in resolving the issues arising in the process. The Government is determined to have all the GAAP fully implemented by the time it prepares its financial plans for the 2004/05 fiscal year. My Office is working closely with the Ministry of Finance to support this important project.

This report covers the financial information included in the 2002/2003 Public Accounts. While I am pleased that the government responded positively to most of my recommendations last year, I must nevertheless again qualify my audit report on the 2002/03 Summary Financial Statements because public schools, universities, colleges and hospitals were not consolidated there. I will make this qualification once more in 2004, but hope that will be the last time I must do so.

The government also continues to improve the presentation of its financial statements—and again I am pleased that almost all the recommendations I made last year in this area have been, or are being, implemented. This year I am making a few additional recommendations. I am asking the government to: adopt new GAAP recommendations as early as possible; better disclose amounts set aside to fund its financial obligations; better track changes in the Estimates during the year; evaluate its liability for retirement allowances; and improve the financial information it provides for each sector of government operations.

The Summary Financial Statements always provide valuable information about significant events that occurred in the year. In this report, I comment on four such transactions. Providing this

information will, I believe, help legislators and the public better understand these transactions and how they affect the overall financial results of the government.

In closing, I wish to acknowledge and thank all those who assisted my Office during our audit of the Summary Financial Statements, the preparation of this report, and our work on the various audits and assessments that led to the matters discussed here. I also wish to acknowledge the hard work, professionalism and dedication of my staff.

Wayne K. Strelioff, CA
Auditor General

Victoria British Columbia
November, 2003

Introduction

This report is our update on government's adoption of best practices in financial statement reporting

The Summary Financial Statements are a major means by which the government accounts for its financial performance, and so we audit them each year. This work is a significant focus of our Office.

We examine these statements with two goals in mind: first, to give assurance to the legislators and citizens of the province that the statements present fairly both the financial position of the government and the results of its operations; and second, to comment on the government's progress in adopting best practices in financial statement reporting.

We achieved our assurance goal in June 2003 when the government issued its financial statements. In a short report published with those statements in the Public Accounts for the fiscal year 2002/03, we confirmed that, with few exceptions, the statements presented the government's financial position and operations well. The exceptions we referred to in our June report relate to incomplete accounting for publicly controlled schools, universities, colleges and hospitals. The highlighted extract from our June report (shown here in the sidebar) lists the dollar effects of excluding these organizations from the government reporting entity.

The government reporting entity is not complete

The Public Sector Accounting Board (PSAB) recommends that a government's reporting entity be made up of all organizations that are controlled by the government. The government currently

> As explained in note 1(c) to these financial statements, the Government's stated accounting policies contain exceptions to generally accepted accounting principles (GAAP) for senior governments, as recommended by The Canadian Institute of Chartered Accountants, related to schools, universities, colleges and institutes, and health care organizations. Had GAAP been followed as at March 31, 2003, it would be expected that financial assets increase by $3.4 billion ($2.8 billion at March 31, 2002), liabilities increase by $3.7 billion ($3.1 billion at March 31, 2002), non-financial assets increase by $3.6 billion ($3.1 billion at March 31, 2002), and the accumulated deficit decrease by $3.3 billion ($2.8 billion at March 31, 2002). Similarly, for the year ended March 31, 2003, revenues increase by $2.4 billion ($2.2 billion for 2002), expenses increase by $2.2 billion ($2.0 billion for 2002), and the annual deficit decrease by $0.2 billion ($0.2 billion for 2002).

does not include school districts, universities, colleges and institutes, or health care organizations (the SUCH sector) in its reporting entity. We believe that the government controls these organizations, and so they should be included. We are pleased that the government has announced that these organizations will be included in its financial plans and reports for the 2004/05 fiscal year.

The government defers some capital grants it has made to its own organizations

Governments grant millions of dollars each year to health and educational institutions. Some of these grants are for buying, or building, tangible capital assets. These transfers are often referred to as capital grants.

Like transfer of money between two departments of a company, grants made by a ministry to a government organization present movement of money within the government reporting entity. However, as explained above, the government does not include publicly controlled schools, universities, colleges and hospitals in its Summary Financial Statements. It therefore accounts for grants made from its Consolidated Revenue Fund to these organizations as if they are transfers of funds to outside organizations. When these transfers are for capital acquisitions, the government defers expensing the grants by describing them as "prepaid capital advances," records them as assets on its balance sheet, and amortizes them over the lifespan of the acquired tangible capital assets.

The combination of excluding the SUCH sector and deferring capital grants made to it has resulted in a very complex approach to financial reporting. Although the government has right of access to billions of dollars of public assets, it has chosen not to include these assets in its Summary Financial Statements.

We believe that because the SUCH sector is part of the government reporting entity, all its revenues, expenses, assets and liabilities should be fully included in the Summary Financial Statements. If this were done the government would not be deferring grants made to its own organizations. All capital grants recorded as prepaid capital advances would—as they should—be treated as internal transfers of funds within the government, and instead all assets be properly recorded. The result would be clearer and more understandable financial statements.

PSAB is currently reviewing the accounting treatment of government transfers. We have advised PSAB that we support deferral of capital grants to organizations outside of the government reporting entity when it can be shown that the acquired capital asset is used in delivering a government service.

We said that our second goal in examining the Summary Financial Statements was to inform Members of the Legislative Assembly and the public about the government's progress in adopting best practices in financial accountability. This report is intended to meet that goal. Where we consider it appropriate, we have also made recommendations for improvements.

Government continues its focus on adopting best practices in its financial accounting and reporting

The publication of the Summary Financial Statements is the result of a year-round effort. Daily transactions must be accumulated into the correct accounts, and the final balances of the different government organizations must be combined appropriately to produce the financial statements. The government diligently reviews the processing, accumulation and combination of the transactions to ensure the financial statements properly represent the operating results and financial position of the whole of government. Adopting best practices based on financial statement concepts and generally accepted accounting principles (GAAP) recommended by the Canadian Institute of Chartered Accountants (CICA) helps the government achieve this goal.

The Summary Financial Statements are a central feature of government financial reporting. They are a way for government to tell legislators, policy-makers and the public how it has administered public financial resources. Because many government transactions are complex, it is important that the accounting policies chosen to record them are the best ones for making the transactions understandable and conveying what actually happened. Deciding which are the best accounting practices to use requires significant professional judgement.

According to the Public Sector Accounting Board (PSAB) those practices chosen should result in financial statements that:

- provide an accounting of the full nature and extent of the financial affairs and resources that the government controls, including those related to the activities of its agencies and enterprises;
- describe the government's financial position in a way that is useful for evaluating the government's ability to finance its activities, meet its liabilities and commitments, and provide future services;
- describe the changes in the government's financial position, showing the sources, allocation and consumption of the government's resources, how the government's activities affected its net debt, and how the government financed its activities; and
- demonstrate the accountability of the government for the resources, obligations and financial affairs for which it is responsible.

As auditors, we measure against these objectives the accounting and reporting practices adopted by the government, and we compare them to GAAP and other standards of the CICA, and to what our peers across Canada are doing. Considering these outside sources helps us decide objectively what the best practice is in each circumstance.

The Government of British Columbia either already follows, or has committed itself to adopting, most of what makes up best practice across Canada. This year, for example, the financial statements were published within three months of the year-end —a considerable improvement from five years ago when the financial statements were published almost seven months after the year-end. As well, the government continues to work on fully adopting GAAP for the Summary Financial Statements in 2004/05, and on consistently and appropriately applying GAAP in school districts. It has also improved its explanations of the significant events of the fiscal year, and made progress on the separate financial reporting of the major sectors of government operations, such as health, education and transportation.

We are pleased with the government's focus on improving the Summary Financial Statements, and we look forward to working again with the government to further improve the presentation of this year's statements.

All issues we come across are addressed but only a few result in a reservation

Management is responsible for preparing the financial statements, and auditors are responsible for expressing an opinion on whether the financial statements fairly present the financial position and results of operations.

In any financial statement audit, it is almost inevitable that we will find something that concerns us. For example, it may be the adequacy of control processes, the accuracy of financial transactions, or the way those transactions are presented. We don't expect to find every error and control weakness that exists, but we do plan our audit work so that we can be confident we will discover any significant ones. From those we note, we first decide whether one or more of them (individually or taken together) could, if not corrected, make the financial statements misleading. We try to resolve the matter by discussing it with officials of the government, but if it is not corrected and we believe the financial statements remain misleading, we then express an opinion with a reservation. The purpose of the reservation is to alert users of the financial statements to our conclusions and, where possible, to provide sufficient information that users can see for themselves the effect of the error.

We also report publicly—as in this report—on other findings that we hope will assist the government in continuing to improve the quality of its financial reporting.

Bringing schools, universities, colleges and health care organizations into the government reporting entity is the most important financial reporting issue in British Columbia

Fundamental to the preparation of public sector financial statements is the question of which organizations should be included. According to PSAB, the answer is that a government should include those organizations it controls.

Whether or not school districts, universities, colleges and institutes, and health care organizations (SUCH) should be part of British Columbia's government reporting entity is a matter we have discussed with the government for several years. Our

opinion is that the SUCH sector is part of the government reporting entity and so should be included in the Summary Financial Statements. However, because the government excluded it, we once again qualified our audit opinion on the 2002/03 statements.

The government has committed to following GAAP fully in preparing its financial plans and report, and so will be including the SUCH sector in its reporting entity starting in the 2004/05 fiscal year. Public universities make up an important part of the SUCH sector. Their governance structure is complex and differs from that of almost all other government organizations. While the government has presented a case for excluding universities from the government reporting entity, it has nevertheless agreed to combine financial activities and the balances of public universities in its financial plans and reports for the 2004/05 fiscal year.

The SUCH sector has a considerable effect on understanding government finances, well beyond the overall dollar amounts mentioned in our audit report. For example, we say in our report that total expenses shown in the statements would increase by $2.2 billion if SUCH were included, but the total increase is the net result of many changes to the types of expenses. For example, billions of dollars currently reported as government grants to schools, universities, colleges and hospitals would be better defined in terms of salaries paid to teaching, nursing and support staff working in these organizations, other operating costs and tangible capital assets used in delivering health care and educational services.

The inclusion of the SUCH sector in government's financial reporting would also affect the government's total surplus/deficit measure. In 2002/03, for example, it would reduce the deficit for the year by $0.2 billion.

Earlier we explained how the government defers the capital grants—prepaid capital advances—it makes to the SUCH sector and why our concern about this complex accounting treatment will automatically be resolved once the SUCH sector is included in the government reporting entity. A similar transfer made by the government to British Columbia Transit is a good example to demonstrate the appropriate accounting of prepaid capital advances to an organization included in the government reporting

entity, as indeed that is what happens with the prepaid capital advances made to that company. Being a Crown corporation, British Columbia Transit is part of the government reporting entity, and so on consolidation the prepaid capital advances made to it, almost $1 billion, will be replaced by the tangible capital assets it helped to buy.

We note that, based on current PSAB recommendations, capital advances made to organizations outside the reporting entity must be fully expensed in the year they were made. The reason is that the government does not own the assets it helps the recipient organization buy.

Changes to the government reporting entity

In previous years, regional hospital districts have been included as part of the SUCH sector because they were controlled by the government (for example, the government could change the districts' budgets). Recent legislation, however, has changed the government's responsibilities and control of the Regional Hospital Districts. Therefore, beginning in 2002/03, the hospital districts are excluded from the government reporting entity.

The Workers' Compensation Board has also undergone significant changes to its governance structure and relationship to government, to the extent that it too is no longer controlled by government. Financial information about WCB is included in a note to the Summary Financial Statements, and we are continuing to monitor the relationship between the government and the board. At present, for 2002/03, we consider WCB to be outside the government reporting entity.

As well, we believe that the British Columbia Pension Corporation and British Columbia Investment Management Corporation should be included in the Summary Financial Statements because the government is their sole shareholder and therefore owns them. The government, however, disagrees on the grounds that its shareholding does not carry with it the power to appoint the board. As the assets, liabilities, revenues and expenses of the two Crown corporations are small enough that their absence from the Summary Financial Statements does

not have a material impact on the statements, we have issued no qualification to our opinion.

Overall, we are pleased with the government's commitment to include the complete SUCH sector in its financial plans and reports starting the 2004/05 fiscal year. We expect not to have to qualify our audit opinion on the matter of the government reporting entity when the SUCH sector is fully consolidated in the Summary Financial Statements.

Other significant issues and recommendations

In our audit, we came across a number of significant issues we believe the government should work on with a view to adopting best accounting and reporting practices. They involve:

- moving to early adoption of CICA recommendations,
- disclosing amounts set aside to fund future expenses,
- disclosing estimates on the statement of operations,
- obtaining an actuarial valuation of the liability for the retirement allowance,
- improving the financial information provided about sectors of government operations, and
- improving the way interest expense and debt are disclosed.

Not included in this list are the less significant items we have reported directly to the appropriate ministries, Crown corporations and other government organizations.

At the end of this section, we also provide a progress report on government's implementation of the recommendations we made last year.

Moving to early adoption of CICA recommendations

When an accounting recommendation is issued, the CICA sets the date by which the new accounting standard should be adhered to. In most cases, this is within a year, but it can take longer. The CICA encourages earlier adoption of standards, which we agree is good accounting practice.

For example, the CICA released a new standard in December 2002 requiring that a long-lived asset to be sold be disclosed in the financial statements as an "asset held for sale." This must be done when management commits to a plan for selling the asset provided:

- the asset is ready to be sold,
- an active program to locate a buyer has been initiated,
- the asset is being actively marketed at a reasonable price, and
- the asset is likely to be sold within one year (an exception to this requirement applies where events or circumstances beyond management's control permit an extension).

The importance of disclosing a long-lived asset held for sale lies in the comparability of financial statements from year to year, and the usefulness of the information contained in them. Clearly, if government decides to change the way it does business and to sell some of its assets in the process, this is important information that people reading the financial statements should know about—and what they should know is not only what assets are being sold, but also how this sale influence revenues and expenses.

Providing such information is important when government remains committed to selling an asset at the date of the financial statements.

The date the new CICA standard came into effect was May 1, 2003. Because that followed the government's year-end, the government was not required to apply it in preparing its 2002/03 Summary Financial Statements. However, since the standard was originally released in 2002, long before the year-end, the government could have adopted it. Had it done so for the 2002/03 fiscal year, the net assets of the British Columbia Ferry Corporation, for example, would have been shown as assets held for sale at March 31, 2003. All the steps required by GAAP had been taken during the 2002/03 fiscal year, culminating in the Royal assent on March 18, 2003, and the transfers of control to the BC Ferry Authority occurring just after the year-end on April 2, 2003.

Showing the net assets of British Columbia Ferry Corporation as assets held for sale would have affected the financial statements significantly: non-financial assets on the Statement of Financial Position would have been reduced by $568 million, being reclassified

as financial assets, and net liabilities would also have been reduced by the same amount.

During the 2002/03 fiscal year the government also announced its intention to sell certain assets of the Coquihalla Highway and British Columbia Railway Company. The new standards were not applied to these assets either.

Information about these significant events were provided in a note to the Summary Financial Statements.

We recommend that, to the extent practical, the government adopt new CICA recommendations before their formal effective date.

Disclosing amounts set aside to fund future expenses

From time to time, the government or a third party may apply restrictions on the use of some provincial assets. The government, for example, may formally designate certain assets to indicate its intention to use them for a specific purpose. Or there may be restrictions because of agreements with the external parties who contributed the assets, or because of legislation or an act of other governments that is binding on the province.

A case in point is the BC Forestry Revitalization Trust which was created by a deed of trust in March, 2003, between the Province and a chartered bank, the initial trustee. The provincial Forestry Revitalization Act required the government to pay $75 million into this trust in the 2002/03 fiscal year, which it did. The purpose of these funds is to mitigate the adverse financial impacts resulting from the reduction in harvesting rights brought about by the Act. The government recorded the liability for $75 million, and then cleared its liability by transferring money to the trust account at the bank.

We note that the reduction of harvesting rights did create a certain liability for the government at March 31, 2003, and so recording an expense to set up the $75 million liability is good accounting, and results in appropriate measure of the annual surplus/deficit. However, the transfer of the $75 million into the trust account does not, in our opinion, extinguish the government's liability.

We believe that creating the trust bank account and transferring the funds to it is simply the government's way of formally designating that cash for a specific purpose (namely, mitigating the adverse impacts of the legislated reduction in harvesting rights). The government has also predetermined the account's financial and operating policies by restricting who is eligible to receive funds, and by specifying:

- the structure of the accounts that must be maintained,
- the rules regarding transfers of funds and income allocation, and
- the formula for determining distributions from the account and funding agreements that must be entered into between the trustee and the recipient.

For these reasons we think the government is still liable for the $75 million. Furthermore, extinguishing the liability by transferring cash to a trust fund is a return to cash accounting, a practice that the Province left behind many years ago when it adopted accrual accounting practice.

The substance of this transaction is that a liability has been created. We believe that this liability should continue to be recorded in the government's financial statements, and should only be reduced as conditions are met for money to be paid to outside parties.

We recommend that the government record the BC Forestry Revitalization Trust account, and any similar self-established trust accounts, as part of its restricted assets and continue to show its liabilities in its financial statements until they are discharged in substance.

Disclosing estimates on the statement of operations

It is good practice by both government and non-government organizations to compare actual revenues and expenses with what they budgeted. For governments this is also a reporting requirement. In BC, the government provides such comparison in its financial statements. In recent years, however, the government's presentation of its estimates of revenues and expenses in the Summary Financial Statements has undergone many changes as the government moves to fully consolidated Estimates.

It is usual for at least a whole year to pass between the time the government presents the budget and the time it prepares the financial statements. This means that if the budget is to be meaningfully comparable to actual results, some budget components need to be regrouped to reflect any reorganizations and other operational changes. Because the restated budget is then in a different form from what was originally approved by the Legislative Assembly, the Summary Financial Statements provide in a note a reconciliation to the original budget.

We found that government's records supporting the changes referred to in the note, reconciling the restated Estimates to the original amounts, are not always adequately kept. We believe that the process followed by the government in restating the Estimates must improve to enable us to audit them efficiently.

We recommend that the government improve its record-keeping process to provide clear and sufficient support for all revisions and restatements of the original Estimates presented in the note to the Summary Financial Statements.

Obtaining an actuarial valuation of the liability for the retirement allowance

The cost of an employee to a government organization is more than just the amount of the pay cheque. Staff also receive paid vacation, health care, retirement and other benefits. In keeping with good accounting practice, these costs should be recorded each year by the organization as part of the total annual cost of employing each worker, the costs should not simply be expensed when they actually need to be paid.

For example, the provincial government records as a liability any vacation that has been earned but not taken at the end of each year, and pension plans obtain actuarial valuations of their future costs so they can make provision for those costs by adjusting what they currently invoice the government.

One special benefit available to public service employees is the retirement allowance. A retiring employee who will receive a pension is also entitled to a payment equal to one month's salary if he or she has completed 20 years of service. The employee can also receive an extra amount equal to one-fifth of his or her monthly salary for each additional year over 20, up to a maximum of three months' salary (which corresponds to 30 years of service).

At March 31, 2003, the government had set aside just over $51 million to pay this allowance. This amount does not represent government's liability for retirement allowances.

At present, the government waits until an employee has completed 20 years of service before recording any liability. In our view, this is contrary to good accounting practice based on the concept of recording the complete cost of employment as the employee works. It is also contrary to PSAB requirements.

We believe that the government should obtain an actuarial valuation of the liability for the retirement allowance. This would allow it to record an expense each year as employees work towards and beyond 20 years of service and on to eventual retirement.

We recommend that the government obtain an actuarial valuation so that an expense for the retirement allowance can be recorded for each year that an employee works.

Improving the financial information provided about sectors of government operations

Last year, we recommended that the government provide complete financial information about the main sectors of government operations. This sectoral information (sometimes also referred to as "segmented" information) gives readers a better understanding of government operations and the financial aspects of program delivery.

This year, promoting such understanding has become even more important with the government now releasing a discussion paper each fall about its next budget, and the Legislative Assembly appointing a committee of MLAs to solicit the views of British Columbians about the budgetary issues facing the government. Shedding light on government operations by sector is one way to get a more informed response.

We found considerable improvement last year in the government's disclosure of sectoral information on the statements of "Financial Position by Sector" and "Operations by Sector" in the Summary Financial Statements. Now each ministry's activities are allocated to the appropriate sectors, giving a far better picture of

the financial position and the operations of the government's major sectors—health, education, social services, transportation, and so on.

As the government starts to publish its service plans and reports related to its operations in these sectors, corresponding financial information will become increasingly important to add value to the operational information. We therefore encourage the government to take its current practice further, publishing complete sectoral financial information in its 2003/04 public accounts.

We recommend the government annually provide, in the Public Accounts, complete sectoral financial information.

Improving the way interest expense and debt are disclosed

Interest expense and debt are not disclosed consistently. On the statement of operations, part of the cost of borrowing is disclosed as interest expense and part (as explained in note 29 of the Summary Financial Statements) is combined with the health, education and transportation costs.

The cost of borrowing can be disclosed in one of two ways: to show it as an overall cost to the government, or to allocate the cost of borrowing as part of what is spent on health, education, transportation, etc. The government's current disclosure is neither completely one nor the other. We are told the government will resolve this issue in 2003/04.

We recommend that the government be consistent in the way in which interest and debt are allocated to the functions and sectors.

Status of Prior Year Recommendations

The recommendations we made to the government last year (resulting from our audit of the 2001/02 Summary Financial Statements) and the status of their implementation (based on our audit of the 2002/03 Summary Financial Statements) are reported here.

Recommendation

That the Ministry of Education complete its review of school district accounting and reporting issues by the end of the 2002/2003 school year.

Status

The Ministry of Education has now substantially completed its review. Full implementation of GAAP will be made by school districts by July 1, 2004. This revision means that the first formal, audited annual GAAP-based financial statements for school districts will be for the period July 1, 2004, to June 30, 2005.

Recommendation

That the government be consistent in how it allocates interest expense to appropriate functions.

Status

The government was still inconsistent in its allocation method in the 2002/03 statements. However, we are told this issue will be resolved in 2003/04.

Recommendation

That the note disclosures about contingent liabilities be written in a way that reflects a level of disclosure appropriate to the relative significance of the issues.

Status

This recommendation has been satisfactorily implemented.

Status of Prior Year Recommendations

Recommendation

That the government annually provide, in the Summary Financial Statements, complete segmented financial information.

Status

The government has significantly improved the presentation of its sectoral financial information.

Recommendation

That the government consider the possibility of obtaining assurance on an interim financial statement of school districts as at March 31 each year, for inclusion in the Summary Financial Statements

Status

The government is considering a proposal for preparing at March 31 of each year a consolidated financial statement of all school districts for inclusion in the government's Summary Financial Statements. Assurance on this consolidated financial statement would be provided by the Auditor General.

The Financial Effects of Four Important Decisions

The Summary Financial Statements are complex and serve a general purpose. In putting them together annually, the government summarizes a great deal of information, including that concerning the impact of, and the transactions resulting from, important decisions that have been made. A fuller explanation helps readers understand the role these decisions play in shaping the government's finances. We discuss four such decisions and the related transactions that played a significant role in shaping the financial statements of the government in 2002/03:

- changing the accounting policy on recording equalization payments
- writing down the investment in British Columbia Ferry Corporation in anticipation of transfer of control to BC Ferry Authority
- accounting for the government's restructuring exit expenses
- writing-off net assets of regional hospital districts

Changing the accounting policy on recording equalization payments

The 2002/03 fiscal year was the second time that British Columbia received equalization payments from the federal government. In 2001/02, the first year that these payments were received, equalization was recorded on a cash basis: the Province recorded as revenue the cash it received from the federal government during the year. In 2002/03, the government decided to improve its accounting practice by using the accrual basis to determine how much equalization should be recorded.

The accrual basis of accounting means recording in the fiscal year the equalization payments that are due to the Province for that year, not simply the cash it received. When the Province made a detailed review of the calculations behind the payments made by the federal government, and adjusted them for more recent information on the provincial economy and population, it found that the federal government had overpaid $188 million in the current year. It also found that some of the payments received should have been recorded as relating to the prior year. Consequently, the Province recorded revenues of $543 million for 2002/03, $159 million for 2001/02 (compared to the $226 million recorded previously), and $68 million for 1999/2000 (nothing previously recorded).

The accrual basis of accounting is the preferred basis for accounting for revenues and expenses, and we support the government in this change.

Writing down the investment in British Columbia Ferry Corporation in anticipation of transfer of control to BC Ferry Authority

In March 2003, the Coastal Ferry Act was passed, providing the government with the necessary authority to transfer controls in the British Columbia Ferry Corporation (BC Ferries) to BC Ferry Authority.

Investments that are to be held for a lengthy period of time (as is the case with investments in Crown corporations) are usually recorded at their actual cost. But if something happens —a permanent change in circumstances, for example—that indicates the investment is not worth what it is recorded at, its value should be adjusted. This was the case with the Province's investment in BC Ferries.

About 10 years ago, the government partially funded the purchase of certain ferries from its general fund. The corporation had accounted for the $139 million grant it received by immediately reducing the cost of the ferries that it purchased, and recorded the net cost on its financial statements, which it then amortized each year. This is appropriate accounting for a corporation in the private sector that receives government assistance to buy assets. However, BC Ferries was part of government, and so it was necessary to make an adjustment to the book value of the ferries each year when BC Ferries' financial statements were consolidated in the Summary Financial Statements. With this adjustment, the ferries were recorded in the financial statements of the government at their full cost—that is, the cost shown on BC Ferries financial statements increased by $139 million, less an amount representing what would have been the correct amortization. This would make the book value of these assets in the Summary Financial Statements in March 2003 almost $72 million more than that indicated in the corporation's financial statements.

The agreement between the government and the new B.C. Ferry Authority specified that the government would transfer its control in the BC Ferries to the B.C. Ferry Authority for an amount equal to the net book value of the corporation, as shown on the

corporation's March 31, 2003, audited financial statements. Because of the adjustment described above, this meant that the government would receive $72 million less for the corporation than the amount it was including in its Summary Financial Statements as the book value of the corporation's net assets. Since substantially all conditions of the transfer of control were met before the year-end, it was necessary to write down the value of those net assets at March 31, 2003. In the 2003/04 fiscal year the non-voting preference shares and bonds of British Columbia Ferries Services Inc. will replace the provincial government's equity in BC Ferries.

We agree with the accounting practice followed by the government in recording this write-down in its 2002/03 financial statements.

Accounting for the government's restructuring exit expenses

The British Columbia government has embarked on a significant restructuring of government operations. In some cases, the restructuring results in one-time expenses that are not associated with the continuing activities of government. An example is the penalty paid to cancel a contract that is no longer needed.

These costs are shown separately on the statement of operations, and are described further in the notes to the Summary Financial Statements.

According to the government plan the restructuring is to be carried out over three years. As each annual restructuring plan is approved, the associated estimated costs are recorded. However, the Summary Financial Statements show only expenses made by central agencies and organizations which are fully consolidated in the Summary Financial Statements. Because government business enterprises are not consolidated line by line, these costs would not be included in the statement of operations, however, they are disclosed in the notes to the Summary Financial Statements. Therefore the $169 million expense shown on the statement of operations as "restructuring exit expenses" does not include the similar expenses of government business enterprises, estimated at $80 million.

Adding the amount expensed by the government business enterprises to those costs borne directly by the taxpayer, the total restructuring exit costs for the government as a whole were $249 million in 2002/03 ($435 million in 2001/02).

Writing-off net assets of the regional hospital districts

The funding of major capital project costs in the health care sector is ordinarily shared by the provincial government and the local regional district on a 60/40 basis. A number of years ago, 33 regional hospital districts (RHDs) were created to borrow funds to finance these capital projects. Annually, to pay off their debt and cost of borrowing, RHDs were also receiving grants from the Province and property tax levies from the local regional district.

Starting in December 2000, after the regionalization of health care delivery and the creation of new local health authorities, the flow of the provincial grants changed. The local health authorities took on the responsibility for the 60% provincial share of major capital project costs, and the Province began sending the grants to the local health authorities instead of to the RHDs.

This meant that the only funds flowing to the RHDs were the property tax levies from the local regional districts, and the only assets and debts held by the RHDs were those relating to the 40% share that was the responsibility of the local regional districts. However, since the Province controlled the RHDs, they were still consolidated in the SUCH sector, despite the fact that the assets, liabilities, revenues and expenses in the RHD financial statements were no longer transactions of the provincial government.

This led to the Hospital District Amendment Act, passed in the spring of 2003. The Act removed the powers that gave the government control over the RHDs.

At the time, the RHDs had net assets of $340 million, which would be written off if health organizations were consolidated in the Summary Financial Statements. This amount has been included in calculating the effects of excluding the SUCH sector from the government's 2002/03 Summary Financial Statements.

Response from the Ministry of Finance

Response from the Ministry of Finance

We appreciate the opportunity to respond to the Auditor General's comments. We feel this report recognizes the significant and continuous improvements we have made to our financial statements. We further appreciate the review by the Auditor General's office and their acknowledgement of the government's progress in adopting best practices including:

- *Release of the Public Accounts on June 27, 2003, among the very best in terms of timeliness;*
- *The government's diligence in reviewing processing, accumulating and combining of transactions to ensure proper representation of the operating results and financial position of the whole of government;*
- *Support for the deferral of capital grants to outside organizations where the asset is used in delivering a government service;*
- *The acknowledgement that significant professional judgement must be applied in determining accounting policies chosen;*
- *The government's commitment to include the Schools, Universities, Colleges and Health Authorities (SUCH) sector in its 2004/05 fiscal year, and the expectation that this will remove the current qualification of the province's summary financial statements;*
- *The acknowledgement that even though some Public Sector Accounting Board (PSAB) guidance was not yet required, the province disclosed relevant details of pending events such as restructuring of British Columbia Ferry Corporation, British Columbia Rail and the Coquihalla Highway;*
- *The completion of the Ministry of Education review of school district accounting and reporting and the move to GAAP accounting for schools beginning July 1, 2004;*
- *The improvements to the note disclosure for contingent liabilities; and*
- *The significant improvement to sectoral financial reporting information.*

We are already, generally, following the recommendations of the PSAB of the Canadian Institute of Chartered Accountants in our reporting, with the exclusion of the SUCH sector from the government reporting entity being the only major exception. This exception will be addressed when the SUCH sector is included in the government reporting entity with the 2004/05 budget to be tabled in February, 2004.

The movement to full implementation of generally accepted accounting principles (GAAP) is a major undertaking, not just an accounting issue. We have been working closely with the independent Accounting Policy Advisory Committee to resolve issues. Much work has been done, and remains to be done, for the province to achieve this goal.

In addition to our work in moving to GAAP, the Office of the Auditor General and the Office of the Comptroller General have been working together to urge PSAB to change GAAP to improve reporting by allowing the deferral of capital grants to organizations outside of the government reporting entity. In our view, this is consistent with our move to full accrual accounting many years ago and improves program costing.

Changes in accounting recommendations occur frequently. We ensure that we implement changes within the recommended implementation timeframe. With an organization as large as the government reporting entity it is not always practical or advisable to do early implementation of recommended changes to accounting. Where practical, we have provided additional disclosure that is not yet required, e.g. disclosure of BC Ferry and BC Rail restructuring and the potential public private partnership related to the Coquihalla Highway.

Where clear decisions to dispose of assets or operations have not yet been made, it would be inappropriate to change our reporting and then have to change it back the following year because the final decision was different from the anticipated one. A case in point is the public private partnership arrangement contemplated for the Coquihalla Highway. Proposed arrangements varied from asset disposal to a range of partnering options. With-out a clear decision, we determined that it would be better to leave the existing treatment in place and disclose information of this potential partnership arrangement.

With regard to the Auditor General's comments on BC Forestry Revitalization Trust, we do not agree with the Office of the Auditor General's characterization of the trust. The BC Forestry Revitalization Trust was a properly constituted trust that met all the GAAP guidance for establishment of an independent trust. The Auditor General agreed with us that this was appropriately an expense in the 2002/03 fiscal year. When the province decided that the forest industry had to be restructured and revitalized, it realized that it had an obligation to facilitate changes to the industry. The trust was established to describe and confine the

province's obligations related to revitalization of the forestry industry while allowing for others (industry) to contribute to this revitalization through payments to the trust. The trust was not a method of avoiding reporting a provincial liability. Additionally, the trust is not a restricted asset of the province. The province is not the beneficiary of the trust and cannot access the assets of the trust.

With respect to the Auditor General's recommendation that we set up a liability for employee retiring allowances, an actuarial valuation is currently being sought by the government. This will provide us with the required information for the 2003/04 Public Accounts.

We have improved sector reporting as indicated in the Auditor General's report but no further expansion is planned for reporting in this area at this time as implementing GAAP is our number one priority. Our current reporting is consistent with PSAB recommendations and we do not believe it is appropriate to change this without further direction from PSAB. We also wish to monitor the work underway at PSAB in terms of improving reporting as well as the presentations of other jurisdictions.

We again thank the staff of the Auditor General for their hard work and co-operation in preparing the 2002/03 financial statements, and look forward to 2003/04.

Appendices

Appendix A

Summary Financial Statement Audit Methodology

When examining for the purpose of expressing an opinion on financial statements, auditors are expected to comply with established professional standards, referred to as generally accepted auditing standards. The source of these standards in Canada is the Canadian Institute of Chartered Accountants (CICA).

Generally accepted auditing standards consist of three main areas. There are general requirements that the auditor be properly qualified to conduct and report on an audit, and that he or she carry out the duties with an objective state of mind. Further standards outline the key technical elements to be observed in the conduct of an audit. Finally, reporting standards set out the essential framework of the auditor's report on the financial statements.

In addition to these broad standards, the CICA makes other, more detailed, recommendations related to matters of auditing practice.

Application of the Standards

We carry out extensive examinations of the accounts and records maintained by the ministries and central agencies of government, and by the Crown corporations and other public bodies of which the Auditor General is the auditor.

Also, with respect to Crown corporations that are audited by other auditors and that form part of the Summary Financial Statements, we obtain various information and assurances from those other auditors which enable us to rely on their work in conducting our audit of the government's accounts. This information is supplemented by periodic reviews by our staff of those auditors' working paper files and audit procedures.

Throughout these examinations, the Office of the Auditor General complies with all prescribed auditing standards in the conduct of its work. It must be realized, however, that the Auditor General's opinion on a set of financial statements does not guarantee the absolute accuracy of those statements. In auditing the government financial statements, or of any large organization, it is neither feasible nor economically desirable to examine every

transaction. Instead, using our knowledge of the government's business, its methods of operation and systems of internal control, we assess the risk of error occurring and then design audit procedures to provide reasonable assurance that any errors contained in the financial statements are not, in total, significant enough to mislead the reader as to the government's financial position or results of operations.

When determining the nature and extent of work required to provide such assurance, we consider two main factors: *materiality*, which is expressed in dollar terms, and *overall audit assurance*, expressed in percentage terms.

Materiality relates to the aggregate dollar amount which, if in error, would affect the substance of the information reported in the financial statements, to the extent that a knowledgeable reader's judgement, based on the information contained in the statements, would be influenced.

In our audit of the Summary Financial Statements, we have assumed that an error in the current year's operating results in excess of one-half of 1% of the gross expense of the government would be considered material.

Overall audit assurance represents, in percentage terms, how certain the auditor wants to be that the audit will discover errors, if any, in the financial statements, which in total exceed materiality.

In our audit of the Summary Financial Statements, we planned our work so as to achieve an overall audit assurance of 95% that the audit would detect total error in excess of materiality. In choosing the level of assurance, we consider factors such as the expectations of the users of the financial statements and the nature of the audit evidence available.

In planning our audits of financial statements, we exercise professional judgment in determining the application of these two key factors. Professional judgment is influenced by our knowledge of the requirements of readers of the financial statements, and by what is generally accepted as being appropriate by auditors of similar organizations.

We continuously revise and update our auditing methodology to keep pace with auditing best practices.

Appendix B

Government Organizations Included in the 2002/2003 Summary Financial Statements, and Their Auditors

	Audited by	
	Auditor General	Private Sector Auditors
552513 British Columbia Ltd.	✓	
632121 British Columbia Ltd.	✓	
634349 British Columbia Ltd.	✓	
B.C. Community Financial Services Corporation		✓
B.C. Festival of the Arts Society		✓
B.C. Games Society		✓
B.C. Health Care Risk Management Society		✓
B.C. Pavilion Corporation		✓
BC Transportation Financing Authority	✓	
BCIF Management Ltd.		✓
British Columbia Arts Council[1]		
British Columbia Assessment Authority	✓	
British Columbia Buildings Corporation		✓
British Columbia Enterprise Corporation	✓	
British Columbia Ferry Corporation		✓
British Columbia Health Research Foundation		✓
British Columbia Heritage Trust		✓
British Columbia Housing Management Commission		✓
British Columbia Hydro and Power Authority		✓
British Columbia Immigrant Investment Fund Ltd.	✓	
British Columbia Liquor Distribution Branch[2]	✓	
British Columbia Lottery Corporation		✓
British Columbia Racing Commission		✓
British Columbia Railway Company		✓
British Columbia Securities Commission	✓	
British Columbia Trade Development Corporation		✓
British Columbia Transit		✓

[1] The entity's financial statements were unaudited.

[2] A special operating agency under the Ministry of Competition, Science and Enterprise

Appendix B

	Audited by	
	Auditor General	Private Sector Auditors
Canadian Blood Services		✓
Columbia Basin Trust		✓
Columbia Power Corporation	✓	
Creston Valley Wildlife Management Authority Trust Fund	✓	
Discovery Enterprises Inc.		✓
First Peoples' Heritage, Language and Cultural Council		✓
Forensic Psychiatric Services Commission		✓
Homeowner Protection Office	✓	
Industry Training and Apprenticeship Commission	✓	
Insurance Corporation of British Columbia		✓
Interim Authority for Community Living British Columbia	✓	
Land and Water British Columbia Inc.	✓	
Legal Services Society	✓	
Oil and Gas Commission	✓	
Okanagan Valley Tree Fruit Authority		✓
Organized Crime Agency of British Columbia Society		✓
Pacific National Exhibition		✓
Partnerships British Columbia Ltd. (note)	✓	
Private Post-Secondary Education Commission		✓
Provincial Capital Commission	✓	
Provincial Rental Housing Corporation		✓
Rapid Transit Project 2000 Ltd.		✓
Science Council of British Columbia		✓
Tourism British Columbia	✓	
Vancouver Trade and Convention Centre Authority	✓	
Victoria Line Ltd.	✓	

note: This organization changed its name during the current year. It was formerly known as Duke Point Development Ltd.

Appendix C

The 2002/2003 Summary Financial Statements

Summary Financial Statements

Province of British Columbia

For the Fiscal Year Ended
March 31, 2003

Report of the Auditor General of British Columbia

ON THE SUMMARY FINANCIAL STATEMENTS OF THE GOVERNMENT OF THE PROVINCE OF BRITISH COLUMBIA

To the Legislative Assembly
of the Province of British Columbia

As required by the *Auditor General Act*, I have audited the summary financial statements of the Government of the Province of British Columbia consisting of the statement of financial position as at March 31, 2003, and the statements of operations, changes in cash and temporary investments, and changes in net liabilities for the year then ended. These financial statements are the responsibility of the Government. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Government, as well as evaluating the overall financial statement presentation.

Reservation

As explained in note 1(c) to these financial statements, the Government's stated accounting policies contain exceptions to generally accepted accounting principles (GAAP) for senior governments, as recommended by The Canadian Institute of Chartered Accountants, related to schools, universities, colleges and institutes, and health care organizations. Had GAAP been followed as at March 31, 2003, it would be expected that financial assets increase by $3.4 billion ($2.8 billion at March 31, 2002), liabilities increase by $3.7 billion ($3.1 billion at March 31, 2002), non-financial assets increase by $3.6 billion ($3.1 billion at March 31, 2002), and the accumulated deficit decrease by $3.3 billion ($2.8 billion at March 31, 2002). Similarly, for the year ended March 31, 2003, revenues increase by $2.4 billion ($2.2 billion for 2002), expenses increase by $2.2 billion ($2.0 billion for 2002), and the annual deficit decrease by $0.2 billion ($0.2 billion for 2002).

. . . 2

Opinion

In my opinion, except for the effects of my reservation explained in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Government of the Province of British Columbia as at March 31, 2003, the results of its operations and the changes in net liabilities and its cash and temporary investments for the year then ended, in accordance with generally accepted accounting principles for senior governments as recommended by The Canadian Institute of Chartered Accountants.

Wayne Strelioff

Victoria, British Columbia
May 16, 2003

Wayne Strelioff, CA
Auditor General

Statement of Responsibility for the Summary Financial Statements of the Government of the Province of British Columbia

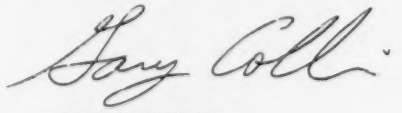
Responsibility for the integrity and objectivity of the Summary Financial Statements of the Government of the Province of British Columbia rests with the government. These financial statements are prepared by the Comptroller General in accordance with the accounting policies as determined by Treasury Board. The fiscal year of the government is from April 1 to March 31 of the following year.

To fulfill its accounting and reporting responsibilities, the government maintains systems of financial management and internal control. These systems give due consideration to costs, benefits and risks, and are designed to provide reasonable assurance that transactions are properly authorized by the Legislative Assembly, are executed in accordance with prescribed regulations and are properly recorded. This is done to maintain accountability of public money and safeguard the assets and properties of the Province of British Columbia under government administration. The Comptroller General of British Columbia maintains the accounts of British Columbia, a centralized record of the government's financial transactions, and obtains additional information as required from ministries, Crown corporations and agencies to meet accounting and reporting requirements.

The Auditor General of British Columbia provides an independent opinion on the financial statements prepared by the government. The duties of the Auditor General in that respect are contained in section 11 of the *Auditor General Act*.

Annually, the financial statements are tabled in the Legislature as part of the Public Accounts, and are referred to the Select Standing Committee on Public Accounts of the Legislative Assembly. The Select Standing Committee on Public Accounts reports to the Legislative Assembly on the results of its examination together with any recommendations it may have with respect to the financial statements and accompanying audit opinions.

Approved on behalf of the Government of the Province of British Columbia:



GARY COLLINS
Chair, Treasury Board

Summary Financial Statements
Statement of Financial Position
as at March 31, 2003

	Note	In Millions 2003	2002
Financial Assets		$	$
Cash and temporary investments	3	326	780
Warehouse Program investments	4		1,067
Accounts receivable	5	2,398	2,660
Inventories for resale	6	218	250
Due from other governments	7	137	224
Due from self–supported Crown corporations and agencies	8	402	384
Equity in self–supported Crown corporations and agencies	9	2,629	2,520
Loans, advances and mortgages receivable	10	610	604
Other investments	11	328	290
Loans for purchase of assets, recoverable from agencies	12	7,381	7,552
		14,429	16,331
Liabilities			
Accounts payable and accrued liabilities	13	3,383	3,351
Due to other governments	14	325	99
Due to Crown corporations, agencies and funds	15	136	80
Deferred revenue	16	732	647
Employee pension plans (unfunded pension liabilities)	17	4	6
Taxpayer–supported debt	18	28,871	26,954
Self–supported debt	19	7,270	8,500
		40,721	39,637
Net liabilities	21	(26,292)	(23,306)
Non–financial Assets			
Tangible capital assets	22	10,950	11,206
Prepaid capital advances	23	7,108	7,033
Prepaid program costs	24	132	126
Other assets	25	148	156
		18,338	18,521
Accumulated surplus (deficit)	26	**(7,954)**	**(4,785)**
Contingencies and commitments	27		
Significant events	34		

The accompanying notes and supplementary statements are an integral part of these financial statements.

Prepared in accordance with the accounting policies as determined by Treasury Board.

ARN VAN IERSEL
Comptroller General

Summary Financial Statements
Statement of Operations
for the Fiscal Year Ended March 31, 2003

	In Millions		
	2003		2002
	Estimates (Note 31) $	Actual $	Actual $
Revenue			
Taxation (Note 28)	13,018	12,331	14,090
Natural resources	2,867	3,281	3,280
Fees and licences	2,407	2,616	2,219
Investment earnings (Note 28)	777	640	811
Miscellaneous	936	904	1,006
Net earnings of self-supported Crown corporations and agencies (Note 9)	1,651	1,766	1,085
Contributions from the federal government	3,327	3,647	3,133
	24,983	25,185	25,624
Expense			
Health (Note 29)	10,674	10,703	10,081
Social services	3,297	3,145	3,480
Education (Note 29)	6,936	6,958	6,934
Protection of persons and property	1,462	1,418	1,366
Transportation (Note 29)	1,605	1,743	1,556
Natural resources and economic development	1,208	1,532	1,841
Other	1,097	667	664
General government	500	525	564
Interest (Note 29)	1,854	1,494	1,663
	28,633	28,185	28,149
Surplus (deficit) for the year before unusual items	(3,650)	(3,000)	(2,525)
Forecast allowance	(750)		
Gain (loss) on pension settlement			1,464
Restructuring exit expense (Note 35)		(169)	(224)
Surplus (deficit) for the year	**(4,400)**	**(3,169)**	**(1,285)**
Accumulated surplus (deficit)—beginning of year as restated (Note 26)		(4,785)	(3,500)
Accumulated surplus (deficit)—end of year		**(7,954)**	**(4,785)**

The accompanying notes and supplementary statements are an integral part of these financial statements.

Summary Financial Statements
Statement of Changes in Cash and Temporary Investments
for the Fiscal Year Ended March 31, 2003

	In Millions			
	2003			2002
Operating Transactions	Receipts $	Disburse-ments $	Net $	Net $
Surplus (deficit) for the year			(3,169)	(1,285)
Non-cash items included in surplus (deficit)				
Amortization of tangible capital assets			608	556
Amortization of prepaid capital advances			415	401
Amortization of public debt deferred revenues and deferred charges			42	70
Concessionary loan adjustments (decreases)			(1)	(6)
Pension settlement (gain)				(1,464)
Valuation adjustments			273	336
Net earnings of self-supported Crown corporations and agencies			(1,766)	(1,085)
Accounts receivable decreases (increases)			110	(178)
Due from other governments decreases			87	140
Due from self-supported Crown corporations and agencies (increases) decreases			(18)	38
Accounts payable increases			32	229
Due to other governments increases (decreases)			226	(5)
Due to Crown corporations, agencies and funds increases			56	9
Unfunded pension liability payments			(2)	(7)
Items applicable to future operations increases			111	52
Contributions of self-supported Crown corporations and agencies			1,657	1,569
Cash derived from (used for) operations			(1,339)	(630)
Capital Transactions				
Tangible capital assets (acquisitions)	223	659	(436)	(842)
Prepaid capital advances (increases)		490	(490)	(529)
Cash (used for) capital	223	1,149	(926)	(1,371)
Investment Transactions				
Loans, advances and mortgages receivable (issues)	141	177	(36)	(58)
Other investments—net decreases (increases)		44	(44)	(25)
Cash (used for) investments	141	221	(80)	(83)
Total financing (requirements)			(2,345)	(2,084)

Summary Financial Statements
Statement of Changes in Cash and Temporary Investments for the Fiscal Year Ended March 31, 2003—Continued

	In Millions			
	2003			2002
Financing Transactions[1]	Receipts $	Disbursements $	Net $	Net $
Public debt increases	18,879	18,112	767	2,165
Derived from Warehouse Program investments	(3,287)	(4,354)	1,067	245
Derived from (used for) purchase of assets, recoverable from agencies	(5,787)	(5,844)	57	(94)
Cash derived from (used for) financing	9,805	7,914	1,891	2,316
Increase (decrease) in cash and temporary investments			(454)	232
Balance—beginning of year			780	548
Balance—end of year			**326**	**780**

[1]Financing transaction receipts are from debt issues and disbursements are for debt repayments.

The accompanying notes and supplementary statements are an integral part of these financial statements.

Summary Financial Statements
Statement of Change in Net Liabilities
for the Fiscal Year Ended March 31, 2003

	In Millions	
	2003	2002
	$	$
Surplus (deficit) for the year	(3,169)	(1,285)
Effect of change in tangible capital assets:		
Acquisition of tangible capital assets	(659)	(945)
Amortization of tangible capital assets	608	556
Disposals and valuation adjustments	307	274
	256	(115)
Effect of change in:		
Prepaid capital advances	(75)	(128)
Prepaid program costs	(6)	39
Other assets	8	65
	(73)	(24)
(Increase) decrease in net liabilities	(2,986)	(1,424)
Impact of accounting adjustment to net deficiency		13
Net liabilities—beginning of year	(23,306)	(21,895)
Net liabilities—end of year	**(26,292)**	**(23,306)**

The accompanying notes and supplementary statements are an integral part of these financial statements.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003

1. Significant Accounting Policies

(a) REPORTING ENTITY

These financial statements include the accounts of organizations which are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the Legislature, and are owned or controlled by the government. Accountability to a minister or directly to the Legislature, for purposes of the reporting entity, does not include those entities that are part of a province–wide program yet are locally based and have an initial accountability to a local board.

The reporting entity also includes government partnerships.

A list of organizations included in these consolidated financial statements may be found on pages 61 and 62.

Trusts administered by the government or a Crown corporation or agency are excluded from the reporting entity.

(b) PRINCIPLES OF CONSOLIDATION

Taxpayer–supported Crown corporations and agencies are consolidated with the Consolidated Revenue Fund using the full consolidation method. The government's interests in government partnerships are recorded on a proportional consolidation basis.

Self–supported Crown corporations and agencies and government business partnerships are consolidated with the Consolidated Revenue Fund on the modified equity basis of consolidation.

The definitions of these consolidation methods can be found on page 14.

No adjustments are made for Crown corporations and agencies whose fiscal year–ends are different from the government's fiscal year–end of March 31, unless the effect of an adjustment would be significant to the consolidated operating result.

(c) BASIS OF ACCOUNTING

The government's Summary Financial Statements are prepared in accordance with the generally accepted accounting principles (GAAP) for senior governments as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants, with the following exceptions:

(i) Reporting entity—PSAB recommends that the reporting entity comprise all organizations that are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the Legislature, and are owned or controlled by the government. The government currently does not include school districts, universities, colleges and institutes, or health care organizations (SUCH sector) in its reporting entity. These organizations will be included in 2004/05. The inclusion of universities will be reviewed annually.

(ii) Prepaid capital advances—PSAB recommends that government transfers be expensed in a government's financial statements in the period that the events giving rise to the transfer occurred, as long as the transfer is authorized, eligibility criteria are met and a reasonable estimate of the amount can be made. Transfers to school districts, universities, colleges and institutes, and health care organizations that are for the acquisition of tangible capital assets are not expensed in the year they are issued; rather, they are treated as a prepaid expense and amortized over the life of the tangible capital assets acquired with the advances.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

1. Significant Accounting Policies—Continued

The following table provides the impact to the province's financial statements if the accounting policies were changed to conform to current PSAB:

	In Millions (Unaudited)					
	Assets	Liabilities	Net Equity	Revenue	Expense	Surplus
	$	$	$	$	$	$
Inclusion of SUCH sector and expensing prepaid capital advances—increase	**7,039**	**3,739**	**3,300**	**2,419**	**2,176**	**243**

The *Budget Transparency and Accountability Act* requires that any exceptions to GAAP be eliminated for fiscal 2004/05.

(d) SPECIFIC ACCOUNTING POLICIES

Revenue

All revenue is recorded on an accrual basis except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable. The exception is corporation income tax, which is recorded on a cash basis.

Government transfers are recognized as revenues in the period during which the transfer is authorized and any eligibility criteria are met.

Tax credits/offsets are accrued on the same basis as the associated tax revenues and reduce gross taxation revenue but are not considered valuation allowances.

Expenses

The cost of all goods consumed and services received during the year is expensed.

Interest expense is recorded net of sinking fund earnings.

Pension expense is calculated as the cost of pension benefits earned by employees during the year, interest on the pension benefits liability net of pension plan assets and amortization of the government's share of any experience gains or losses, less contributions made by members. The estimated total cost of the government's share of the plan amendments related to past service is expensed in the year the plan is amended.

Government transfers include grants, entitlements and transfers under agreements, as defined on pages 14 and 15. Government transfers are recognized as expenses in the period in which the events giving rise to the transfer occurred, as long as the transfer is authorized, eligibility criteria have been met and a reasonable estimate of the amount can be made. This excludes transfers that meet the criteria for a prepaid capital advance.

Acquisitions of tangible capital assets and prepaid capital advances are recorded as assets and the cost is amortized over the useful life of the relevant tangible capital asset. Tangible capital assets not related to a capitalized class of assets are expensed in the year of acquisition.

Restructuring exit expenses are recorded when a restructuring plan in appropriate form has been approved by the province. To qualify, the expense must not be associated with or benefit activities that will be continued by the government reporting entity. In addition, the expense must:

(i) be incremental to other expenses incurred in normal operations and incurred as a direct result of the restructuring plan; or

(ii) represent amounts to be incurred under an existing contractual obligation that will continue after the restructuring plan is completed with no economic benefit to the government; or

(iii) represent a penalty or compensation incurred to cancel an existing contractual obligation.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

1. Significant Accounting Policies—Continued

Assets

Assets are recorded to the extent that they represent cash and claims upon outside parties, items held for resale to outside parties, prepaid expenses, deferred charges, prepaid capital advances or tangible capital assets acquired as a result of events and transactions prior to the year–end.

Financial Assets

Temporary investments and Warehouse Program investments include short–term investments recorded at the lower of cost or market value.

Inventories for resale include property which has been purchased, or for which development costs have been incurred, that is held for ultimate resale or lease to outside parties. Inventories for resale are recorded at the lower of cost or net realizable value.

Equity in self–supported Crown corporations and agencies represents the province's investment (including long–term advances) in those self–supported Crown corporations and agencies at cost, adjusted for increases and decreases in the investees' net assets.

Loans and advances are recorded at cost less adjustment for any prolonged impairment in value. Mortgages receivable are recorded at the principal amount less valuation allowance, are secured by real estate and are repayable over periods ranging up to thirty years. Concessionary loans and mortgages are recorded at net present value at issue and related present value discounts are expensed. Valuation allowances are made when collectibility is considered doubtful.

Other investments are recorded at the lower of cost of acquisition (which may be adjusted by attributed income) or estimated current value. Valuation adjustments are made when the value of investments is impaired.

Loans for purchase of assets, recoverable from agencies are recorded at maturity value less unamortized premium/discount and sinking fund balances. Premium/discount is amortized on a constant yield basis.

Non–Financial Assets

Tangible capital assets are recorded at historical cost less accumulated amortization. Estimated cost is used to record existing tangible capital assets when actual cost is unknown. The recorded cost, less the residual value, is generally amortized over the estimated useful lives of the assets on a straight–line basis except for some transportation equipment which is amortized using the sinking fund method.

All significant tangible capital assets of government organizations and operations have been capitalized. Crown land is capitalized at a nominal value of $1.

Prepaid capital advances are provided to school districts, post–secondary educational institutions, health care organizations and other specified government organizations to fund capital asset acquisitions. The province has an on–going claim on the assets of these organizations. Prepaid capital advances are amortized over the useful life of the assets funded.

Liabilities

All liabilities are recorded to the extent that they represent claims payable to outside parties as a result of events and transactions prior to the year–end, including probable losses on loan guarantees issued by the province, contingent liabilities when it is likely a liability exists and the amount of the liability can be reasonably determined on an individual or portfolio basis, and unfunded pension liabilities.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

1. Significant Accounting Policies—Continued

Employee Pension Plans (Unfunded Pension Liabilities)

The province accounts for employee pension plans by recognizing a liability and an expense in the reporting period in which the employee has provided service. The amount is calculated using the accrued benefit actuarial cost method. Where plans are in a net asset position, and Joint Trusteeship Agreements restrict access to the assets, the province records the value of plan net assets as nil. Changes in net liabilities/assets which arise as a result of estimation adjustments due to experience gains and losses or changes in actuarial assumptions are amortized on a straight–line basis over the average remaining service life of employees active at the date of the adjustments. Past service costs from plan amendments are recognized in full in the year of the amendment.

Unfunded pension liabilities of the Members of the Legislative Assembly Superannuation Account represent the terminal funding that would be required from the province for the difference between the present value of the obligations for future benefit entitlements and the amount of funds available in the account.

Public Debt

Public debt represents the direct debt obligations of the Province of British Columbia, including borrowings incurred for government operating purposes, the acquisition of capital assets, for re–lending to authorized government bodies and for borrowings in advance of future requirements under the Warehouse Program. Public debt consists of short–term promissory notes, notes, bonds and debentures, bank loans, capital leases and mortgages payable. These obligations are recorded at principal less unamortized premium or discount and sinking fund balances where applicable. Public debt is reported under two categories: (1) taxpayer–supported, and (2) self–supported.

(1) Taxpayer–supported debt includes direct debt used for government operating and capital purposes, and the debt of Crown corporations and agencies that requires an operating or debt servicing subsidy from the provincial government or which are fully consolidated within these financial statements.

(2) Self–supported debt includes the portion of debt of commercial Crown corporations and agencies that has been borrowed through the government's fiscal agency loan program. It does not include all debt of commercial Crown corporations and agencies as these entities are consolidated on the modified equity basis. Commercial Crown corporations and agencies fully fund their operations and debt from revenue generated through the sale of goods and/or services at commercial rates to buyers that are outside the government reporting entity. Self–supported debt includes debt of the Warehouse Program.

Debt premium/discount is amortized on a constant yield basis. Unamortized premium/discount on bonds called and refinanced is amortized over the remaining life of the old debt, or the life of the new debt, whichever is shorter.

When it has been determined that there are sufficient securities to satisfy scheduled interest and principal payments for a debt instrument, the sinking fund assets are set aside in a defeased trust account. The debt and the related securities used to extinguish the debt are removed from the province's Statement of Financial Position. The debt is considered extinguished for financial reporting purposes.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate prevailing at the year–end. Foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction unless hedged by forward contracts that specify the rate of exchange. Adjustments to revenue or expense transactions arising as a result of foreign currency translation are credited or charged to operations at the time the adjustments arise. Unrealized foreign currency gains and losses on long–term, fixed–term monetary assets and liabilities are reported as deferred charges and amortized over the remaining terms of the related items on a straight–line basis. Non–monetary assets and liabilities are translated at historical rates of exchange.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

1. Significant Accounting Policies—Continued

Derivative Financial Instruments

The province is a party to financial instruments with off–balance sheet risk due to fluctuations in foreign currency exchange rates, interest rate fluctuations and counterparty default on financial obligations. The province does not use derivative financial instruments for speculative purposes. Off–balance sheet position data is given in the form of nominal principal amounts outstanding. Amounts paid and received under swaps are recognized and offset against the related interest expense. Gains and losses on terminated derivative contracts are deferred and amortized over the lesser of the remaining term of the contract or the related debt.

(e) CHANGE IN ACCOUNTING TREATMENT

Federal Equalization Program

The province has changed its method of recognizing revenue under the Federal Equalization Program from the cash basis to the accrual method of accounting.

The new method of calculating includes an estimate of the revenue earned under the Federal Equalization Program rather than recording cash revenue. The impact on the 2002/03 fiscal year is a $58 million (2002: $68 million) reduction in total revenue. A federal overpayment of $188 million on the 2002/03 entitlement has also been recorded as repayable to the federal government. If this accounting change had not been implemented, the Summary Financial Statements operating result would have been a deficit of $3,111 million (2002: $1,217 million).

2. Measurement Uncertainty

Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Uncertainty exists whenever estimates are used because it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount.

Measurement uncertainty in these financial statements exists in the accruals for pension obligations, Canada Health and Social Transfer (CHST), the Federal Equalization Program and personal income tax.

The nature of the uncertainty in the accruals for pension obligations arises because actual results may differ significantly from the province's best estimates of expected results based on variables such as earnings on pension investments and life expectancy of claimants. Uncertainty related to the accrual for CHST, the Federal Equalization Program and personal income tax arises because of the possible differences between the estimated and actual economic growth and related impact on taxes receivable.

British Columbia Hydro and Power Authority (BC Hydro), a wholly owned self–supported Crown corporation, is directly exposed to counterparty credit risk as a result of the purchase and sale of electricity and natural gas. During fiscal year 2001, the rapid rise of wholesale power prices and in–state supply shortages caused significant financial hardship for a number of utilities in California, resulting in defaults on payments. As a result, BC Hydro has not recognized as revenue some amounts owed to it from sales to these utilities and has recorded provisions for uncollectible amounts and legal costs, which, in management's best estimate, are sufficient to cover any remaining exposure. Due to the instability in the California market and ongoing regulatory and legal proceedings, management cannot predict the outcome and the amount ultimately collected may differ materially from management's current estimate.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

3. Cash and Temporary Investments

	In Millions	
	2003	2002
	$	$
Cash (cheques issued in excess of funds on deposit)	(233)	(319)
Temporary investments[1]	559	1,099
	326	**780**

[1]Temporary investments consist mainly of units in the British Columbia Investment Management Corporation Pooled Investment Portfolios. Units are carried at the lower of cost of acquisition adjusted by income attributed to the units or market value.

4. Warehouse Program Investments

	In Millions	
	2003	2002
	$	$
Temporary investments[1]		1,077
Deferred charges		3
Accrued interest payable		(13)
	0	**1,067**

[1]Temporary investments consist of corporate and bank discount notes.

5. Accounts Receivable

	In Millions	
	2003	2002
	$	$
Taxes receivable	1,368	1,545
Trade accounts receivable	1,332	1,375
Accrued interest	315	274
	3,015	3,194
Provision for doubtful accounts	(617)	(534)
	2,398	**2,660**

6. Inventories for Resale

	In Millions	
	2003	2002
	$	$
Properties	77	85
Small Business Forest Enterprise Program	131	148
Other	10	17
	218	**250**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

7. Due from Other Governments

	In Millions 2003	2002
	$	$
Government of Canada		
Current	97	162
Long–term	1	
Provincial governments		
Current	14	14
Local governments[1]		
Current	24	47
Long–term	1	1
	137	**224**

[1]Local governments are municipal units established by the provinctal government which include regional and metropolitan municipalities, cities, towns, townships, districts, rural municipalities and villages.

8. Due from Self–supported Crown Corporations and Agencies

	In Millions 2003	2002
	$	$
British Columbia Hydro and Power Authority	338	332
British Columbia Lottery Corporation	62	50
Columbia Power Corporation	2	2
	402	**384**

See page 67 for details.

9. Equity in Self–supported Crown Corporations and Agencies

	In Millions 2003			2002
	Investments $	Unremitted Earnings $	Total $	Total $
British Columbia Hydro and Power Authority		1,630	1,630	1,617
British Columbia Railway Company	258	113	371	367
Columbia Power Corporation	276	17	293	282
Insurance Corporation of British Columbia		319	319	239
Provincial Capital Commission		16	16	15
	534	**2,095**	**2,629**	**2,520**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

9. Equity in Self–supported Crown Corporations and Agencies—Continued

In Millions

Change in Equity in Self–supported Crown Corporations and Agencies	2003 Investments $	2003 Unremitted Earnings $	2003 Total $	2002 Total $
Balance—beginning of year	534	1,986	2,520	3,001
Net earnings of self–supported Crown corporations and agencies		1,766	1,766	1,085
Contributions paid to the Consolidated Revenue Fund		(1,483)	(1,483)	(1,420)
Adjustments to contributions paid		(174)	(174)	(149)
Adjustments to unremitted earnings				3
Balance—end of year	**534**	**2,095**	**2,629**	**2,520**

See pages 67 and 68 for details.

10. Loans, Advances and Mortgages Receivable

In Millions

	2003 $	2002 $
Loans and Advances		
BC Student loans	302	204
Industrial Development Fund commercial loans	135	135
Land Tax Deferment loans	144	141
Construction loans to social housing projects	24	121
Accountable advances	29	12
Miscellaneous	82	81
	716	694
Provision for doubtful accounts	(145)	(119)
	571	575
Mortgages Receivable		
Reconstruction Program	41	30
Miscellaneous	17	14
	58	44
Provision for doubtful accounts	(19)	(15)
	39	29
	610	**604**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

10. Loans, Advances and Mortgages Receivable—Continued

The BC Student Loan program provides loans to students for higher education. Students are required to repay these loans, through a contracted service provider, to the province over a maximum of 174 months with a floating interest rate of prime plus 2.5%. Defaulted loans are due on demand with interest at a floating rate of prime plus 2.5%. The program also administers defaulted student loans issued by financial institutions under a risk sharing agreement with the province. Defaulted risk sharing loans arise due to bankruptcy or death of the student while attending school.

The Industrial Development Fund provided loans to assist the establishment of new industry, the introduction of new technology to existing industry, or the development of a region of British Columbia. These loans incur interest at rates ranging from 0% to 10%. The Industrial Development Fund was eliminated pursuant to the repeal of the *Industrial Development Incentive Act* under the *Budget Measures Implementation Act, 2002*. No loans were issued after March 31, 2002.

The Land Tax Deferment program allows eligible individuals to defer payment of all, or a portion of, annual property taxes due on residences. Eligible individuals are either 60 years or older, a surviving spouse or a disabled person. Simple interest is charged on the deferred taxes at a rate set semi–annually by the Ministry of Finance. This rate is generally 2.0% below the prime rate. The deferred taxes, plus any outstanding interest, must be repaid when the residence is transferred to a new owner.

Construction loans are provided by British Columbia Housing Management Commission (BCHMC), a taxpayer–supported Crown corporation, and an approved lender under the *National Housing Act*. BCHMC provides construction loans for societies that are building approved projects under social housing programs. Interest is payable at the province's weighted average borrowing rate for short–term funds, plus administration costs. Loans are repaid at substantial completion of each project from financing arranged with private lenders.

Accountable advances represent funds issued for program costs, which have not yet been expended in accordance with the applicable agreements.

The Reconstruction Program provides financial assistance to homeowners to pay for repairs to homes with premature building envelope failure. The financial assistance is provided in the form of subsidized interest loans, no–interest loans or deferred payment loans and secured by registered mortgages. This program is administered by Homeowner Protection Office.

Miscellaneous mortgages receivable have terms ranging from less than 1 year to 20 years, with some loans being payable on demand. Interest rates range from 3.5% to 10%.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

11. Other Investments

	In Millions	
	2003	2002
	$	$
Government of Canada bonds	18	26
Provincial government bonds	63	33
Commercial loans and investments	111	111
Pooled Investment Portfolios	45	82
Columbia Basin Trust investments	152	93
Miscellaneous	54	71
	443	416
Provision for doubtful accounts	(115)	(126)
	328	**290**

Government of Canada bonds have a market value of $18.7 million (par value $18.4 million), with yields ranging from 3.671% to 5.265%. Maturity dates range from June 18, 2004 to June 1, 2012.

Provincial bonds of various provinces have a market value of $64.4 million (par value $59.4 million), with yields ranging from 3.682% to 5.447%. Maturity dates range from April 22, 2003 to July 22, 2013.

Commercial loans and investments are recorded at the lower of cost of acquisition adjusted by attributed income and market value. A provision in the full amount of these loans has been recorded.

Pooled investment portfolios consist of units in the British Columbia Investment Management Corporation's BC Focus Fund and Illiquid Fund. These funds' investments consist primarily of debt and equity holdings of privately held companies.

Columbia Basin Trust investments include $15 million in bankers acceptances and deposits. Deposit holdings are not marketable, but Columbia Basin Trust may, on ninety days written notice, redeem up to 10% of deposits initially made for a period of one year or longer, without cost or penalty, provided that such redemption occurs only once during a particular deposit's term. Also included is a $137 million equity investment in power project joint ventures developed in partnership with Columbia Power Corporation.

12. Loans for Purchase of Assets, Recoverable from Agencies

	In Millions	
	2003	2002
	$	$
British Columbia Hydro and Power Authority	6,742	6,770
British Columbia Railway Company	481	599
Columbia Power Corporation	47	63
Improvement districts	6	6
Pacific Racing Association		5
Post–secondary educational institutions	105	114
	7,381	7,557
Provision for doubtful accounts		(5)
	7,381	**7,552**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

13. Accounts Payable and Accrued Liabilities

	In Millions 2003	2002
	$	$
Trade accounts payable and other liabilities	1,653	1,594
Accrued interest on debt	789	779
Accrued employee leave entitlements	218	244
Other accrued estimated liabilities[1]	723	734
	3,383	**3,351**

[1]Includes pending litigation, provision for guaranteed debt payout and other miscellaneous accrued claims.

14. Due to Other Governments

	In Millions 2003	2002
	$	$
Government of Canada		
Current	300	69
Provincial governments		
Current	22	14
Local governments[1]		
Current	3	16
	325	**99**

[1]Local governments are municipal units established by the provincial government which include regional and metropolitan municipalities, cities, towns, townships, districts, rural municipalities and villages.

15. Due to Crown Corporations, Agencies and Funds

	In Millions 2003	2002
	$	$
British Columbia Liquor Distribution Branch	44	3
Health care organizations	1	
Post-secondary educational institutions	1	1
Trust funds	90	76
	136	**80**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

16. Deferred Revenue

	In Millions 2003	2002
	$	$
Medical Services Plan premiums	69	55
Motor vehicle licences and permits	166	161
Petroleum, natural gas and minerals, leases and fees	32	29
Water rentals and recording fees	76	71
Derivative debt instruments	72	16
Unearned lease revenue	107	106
Federal and municipal highway project revenues	36	35
Forest Stand Management Fund	16	14
Miscellaneous	158	160
	732	**647**

17. Employee Pension Plans (Unfunded Pension Liabilities)

	In Millions 2003	2002
	$	$
Members of the Legislative Assembly Superannuation Account	4	6

The province contributes to four defined benefit pension plans for substantially all its employees and to the Members of the Legislative Assembly Superannuation Account (the Account). The four pension plans are the Public Service Pension Plan, the Municipal Superannuation Plan, the Teachers' Pension Plan and the College Pension Plan. When Members of the Legislative Assembly become eligible for pension benefits, their pension assets and obligations are transferred from the Account to the Public Service Pension Plan. The plans provide pensions based on length of service and highest five-year average earnings. They do not provide for inflation protection other than that set aside in special inflation accounts.

There are additional employee pension plans in Crown corporations and agencies consolidated on the modified equity basis. Net assets or net liabilities of the pension funds are included in the investment balance of the particular Crown corporation or agency.

The estimated financial position as at March 31, 2003 for each plan consists of the accrued benefit obligation less the pension fund assets, as follows:

	In Millions Public Service Pension Plan	Municipal Superannuation Plan	Teachers' Pension Plan	College Pension Plan	Total
	$	$	$	$	$
Accrued benefit obligation	8,485	8,539	9,546	891	27,461
Pension fund assets	10,340	9,475	9,809	1,232	30,856
Accrued net obligation (asset)	**(1,855)**	**(936)**	**(263)**	**(341)**	**(3,395)**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

17. Employee Pension Plans (Unfunded Pension Liabilities)—Continued

The College, Public Service, Municipal and Teachers' plans are joint trusteeship plans. In joint trusteeship plans, control of the plans and their assets are assumed by individual pension boards made up of government and plan member representatives. Provisions of these plans stipulate that the province has no formal claim to any pension plan surpluses or assets. In addition, all plans are administered by the British Columbia Pension Corporation (BCPC).

In the event that a plan deficit is determined by an actuarial valuation (performed every three years), the pension boards, by agreement, are required to address it through contribution adjustments or other means. It is expected, therefore, that any unfunded liabilities in the future will be short–term in nature.

The reported net assets of the pension plans are under joint trusteeship agreements which limit the province's possible conditional share to 50%. The province has no claim on accrued asset amounts. If the individual pension boards decide to reduce or suspend employer contributions for a period of time, the province may record an asset. Therefore, the recorded value of the net assets is nil until such time that such a decision is made. Also, only 70% of the pension fund assets and accrued benefit obligation are included for the Municipal Superannuation Plan, reflecting the province's interest in the plan.

The accrued benefit obligations and pension assets shown for 2002/03 are based on extrapolations of the most recent actuarial valuations as follows: Public Service Pension Plan (March 31, 2002); Municipal Superannuation Plan (December 31, 2000); Teachers' Pension Plan (December 31, 2000); and College Pension Plan (August 31, 2000).

The Account is also administered by the BCPC. As members of the Legislative Assembly retire, the present value of the amount required to provide a legislative member's future pension benefits is transferred from the Account to the Public Service Pension Plan from which monthly pensions are paid. Pension benefits are based on length of service and highest five–year average earnings. The unfunded pension liability for the Account represents the terminal funding that would be required from the province for the difference between the present value of the obligations for future benefit entitlements and the amount of funds available in the Account.

Key actuarial assumptions used in the valuations include a long–term annual rate of return on pension fund assets of 7.30% for the Public Service Pension Plan, 7.25% for the Municipal Pension Plan, 7.50% for the Teachers' Pension Plan, and 7.40% for the College Pension Plan, and long–term annual salary increases of 4.80% for the Public Service Pension Plan, 4.75% for the Municipal Pension Plan, 5.00% for the Teachers' Pension Plan, and 4.90% for the College Pension Plan.

The audited financial statements of each pension plan listed, along with full descriptions, benefit formulas, inflation assumptions and funding policies may be found at www.pensionsbc.ca.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

18. Taxpayer–supported Debt[1]

In Millions

	Year of Maturity	Canadian Dollar	US Dollar[2]	Japanese Yen[2]	Other Currencies[2]	2003 Canadian Dollar Total	2002 Canadian Dollar Total
Short–term promissory notes	2003						928
	2004	976				976	
Notes, bonds and debentures[3]	2003						2,278
	2004	1,401			510	1,911	1,810
	2005	1,048	490		585	2,123	2,081
	2006	2,296				2,296	1,940
	2007	1,437	1,179		370	2,986	2,746
	2008	943	828	59	418	2,248	946
	2008–2013	7,398	1,452	204	833	9,887	8,903
	2013–2018	1,958	155			2,113	2,113
	2018–2023	1,652				1,652	1,238
	2023–2028	2,467				2,467	2,457
	2028–2033	3,110				3,110	2,810
	2033–2038						
	2038–2043	365				365	365
Total debt issued at face value		**25,051**	**4,104**	**263**	**2,716**	32,134	30,615
Sinking funds[4]						(3,135)	(3,525)
Unamortized discount						(119)	(121)
Amount held in the Consolidated Revenue Fund						(9)	(15)
Total taxpayer–supported debt						**28,871**	**26,954**

The effective interest rates (weighted average percent) as at March 31 on the above debt are:

2003	5.89
2002	6.00

[1]The balances and interest rates reflect the impact of the related derivative contracts, presented in Note 20 (Risk Management and Derivative Financial Instruments).

[2]Foreign currencies include: $2,667 million US ($4,104 million Canadian); 22,000 million Japanese yen ($263 million Canadian); 191 million pounds sterling ($510 million Canadian); 1,000 million Swiss francs ($1,003 million Canadian); and 741 million euros ($1,203 million Canadian). Effective January 1, 2002, debt originally issued in and totalling 2,499 million French francs and 703 million deutsche marks was converted at established fixed exchange rates (6.55957 French francs for 1 euro and 1.95583 deutsche marks for 1 euro) and is now reported in euros.

[3]Notes, bonds and debentures include $6 million (2002: $25 million) in bank loans, $47 million (2002: $79 million) in capital leases and $138 million (2002: $142 million) in mortgages.

[4]Sinking fund balances include assets totalling $138 million (2002: $198 million) invested in the Matched Book Program and assets totalling $2,997 million (2002: $3,327 million) set aside for orderly repayment of debt. Sinking funds at March 31, 2003, totalling nil US (2002: $148 million US) act as a natural hedge of the US dollar debentures. Sinking funds are administered by the British Columbia Investment Management Corporation.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

18. Taxpayer-supported Debt—Continued

Notes, bonds and debentures

Redeemable by the bond holder

Balances include debentures issued to the Canada Pension Plan totalling $3,447 million (2002: $3,328 million) at a weighted average interest rate of 9.27% (2002: 10.13%). These debentures mature at various dates from April 5, 2003 to January 6, 2023, with interest rates varying between 5.61% and 14.06%. These debentures are redeemable in whole or in part before maturity, on six months' prior notice, at the option of the Minister of Finance of Canada, subject to certain restrictions. During the year, $414 million in Canada Pension Plan debentures were issued. Under Canada Pension Plan legislation, any significant amendment to benefits or contributions requires the approval of the legislature of two-thirds of the provinces.

Balances include 5.45% debentures, due August 17, 2028, totalling $200 million (2002: $200 million). The holders have a put option which, if exercised, would result in the bond maturing on August 17, 2005. If the option is not exercised, the debenture will mature on August 17, 2028, and the effective rate on the bond will be 5.62% for the period August 18, 2005 to August 17, 2028.

Balances include 5.86% debentures, due June 18, 2029, totalling $250 million (2002: $250 million). The holders have a put option which, if exercised, would result in the bond maturing on June 19, 2006. If the option is not exercised, the debenture will mature on June 18, 2029.

Balances include British Columbia Savings Bonds totalling $229 million (2002: $355 million) maturing at dates from October 15, 2005 to October 15, 2007, and with an effective rate of 2.70% are redeemable at par by the holder each April 15 and October 15 prior to maturity.

Redeemable by the province

Balances include debentures issued to the Canada Pension Plan totalling $3,447 million (2002: $3,328 million) at a weighted average interest rate of 9.27% (2002: 10.13%). These debentures mature at various dates from April 5, 2003 to January 6, 2023, with interest rates varying between 5.61% and 14.06%. These debentures are redeemable in whole or in part before maturity, on 30 days' prior notice, at the option of the province.

Issues totalling $80 million (2002: $80 million) with effective rates ranging from 2.76% to 2.88% are redeemable at par at the province's option on dates ranging from August 5, 2003 to April 9, 2013.

Defeasances

At March 31, 2003, sufficient securities had been set aside in a defeasance trust account to satisfy the scheduled interest and principal payment requirements of $814 million (2002: $931 million). The securities are government of Canada bonds, provincial bonds or BC Municipal Finance Authority securities which are held to maturity and match the timing and specific amounts required to pay the interest and principal payments on the debt. The debt is considered extinguished for financial reporting purposes. The debt and related securities used to extinguish the debt are removed from the province's Statement of Financial Position.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

18. Taxpayer–supported Debt—Continued

Notes, bonds and debentures—Continued

Aggregate payments to meet sinking fund instalments and retirement provisions

Aggregate payments for the next five years to meet sinking fund instalments and retirement provisions on notes, bonds and debentures are:

	In Millions
	$
2004	1,395
2005	1,826
2006	2,094
2007	2,772
2008	2,114

19. Self–supported Debt[1]

		In Millions					
	Year of Maturity	Canadian Dollar	US Dollar[2]	Japanese Yen[2]	Other Currencies[2]	2003 Canadian Dollar Total	2002 Canadian Dollar Total
Short–term promissory notes	2003						1,461
	2004	373	814			1,187	
Notes, bonds and debentures	2003						446
	2004	300				300	619
	2005	388	75	135		598	598
	2006	413				413	793
	2007	314				314	565
	2008	9	421			430	249
	2008–2013	1,318	73		150	1,541	868
	2013–2018	350				350	350
	2018–2023	1,196				1,196	1,251
	2023–2028	175	735			910	972
	2028–2033	575				575	875
	2033–2038		441			441	478
	2038–2043	50				50	50
Total debt issued at face value		**5,461**	**2,559**	**135**	**150**	8,305	9,575
Sinking funds[3]						(1,029)	(1,071)
Unamortized discount						(6)	(4)
Total self–supported debt						**7,270**	**8,500**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

19. Self-supported Debt—Continued

The effective interest rates (weighted average percent) as at March 31 on the above debt are:

2003	6.25
2002	5.79

[1]The balances and interest rates reflect the impact of the related derivative contracts, presented in Note 20 (Risk Management and Derivative Financial Instruments).

[2]Foreign currencies include: $1,747 million US ($2,559 million Canadian); 10,000 million Japanese yen ($135 million Canadian); 97 million euros ($150 million Canadian). Effective January 1, 2002, debt originally issued in and totalling 637 million French francs was converted at established fixed exchange rates (6.55957 French francs for 1 euro) and are now reported in euros.

[3]Sinking funds at March 31, 2003, totalling $372 million US (2002: $415 million US) act as a natural hedge of the US dollar debentures and short-term promissory notes. Sinking funds are administered by the British Columbia Investment Management Corporation.

Notes, bonds and debentures

Redeemable by the bond holder

Balances include debentures issued to the Canada Pension Plan totalling $317 million (2002: $397 million) at a weighted average interest rate of 11.11% (2002: 10.41%). These debentures mature at various dates from July 10, 2004 to June 9, 2009, with interest rates varying between 9.62% and 14.06%. These debentures are redeemable in whole or in part before maturity, on six months' prior notice, at the option of the Minister of Finance of Canada, subject to certain restrictions. During the year, no Canada Pension Plan debentures were issued for self-supported debt. Under Canada Pension Plan legislation, any significant amendment to benefits or contributions requires the approval of the legislature of two-thirds of the provinces.

Redeemable by the province

Balances include debentures issued to the Canada Pension Plan totalling $317 million (2002: $397 million) at a weighted average interest rate of 11.11% (2002: 10.41%). These debentures mature at various dates from July 10, 2004 to June 9, 2009, with interest rates varying between 9.62% and 14.06%. These debentures are redeemable in whole or in part before maturity, on 30 days' prior notice, at the option of the province.

Defeasances

At March 31, 2003, sufficient securities had been set aside in a defeasance trust account to satisfy the scheduled interest and principal payment requirements of $68 million (2002: nil). The securities are government of Canada bonds or provincial bonds which are held to maturity and match the timing and specific amounts required to pay the interest and principal payments on the debt. The debt is considered extinguished for financial reporting purposes. The debt and related securities used to extinguish the debt are removed from the province's Statement of Financial Position.

Aggregate payments to meet sinking fund instalments and retirement provisions

Aggregate payments for the next five fiscal years to meet sinking fund instalments and retirement provisions on notes, bonds and debentures are:

	In Millions
	$
2004	324
2005	562
2006	422
2007	322
2008	449

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

20. Risk Management and Derivative Financial Instruments

The province borrows funds in both domestic and foreign capital markets, and manages its existing debt portfolio to achieve the lowest debt costs within specified risk parameters. As a result, the province is exposed to risks associated with interest rate fluctuations and foreign exchange rate fluctuations. In accordance with risk management policy guidelines set by the Risk Committee of the Ministry of Finance, the province uses a variety of derivative financial instruments to hedge exposure to these risks.

Derivatives used by the province include interest rate swaps, cross–currency swaps, forward foreign exchange contracts, forward rate agreements, advanced rate setting agreements and options. A derivative instrument is a financial contract with a financial institution or counterparty which is applied to effect a hedge on interest rate or foreign exchange exposure contained in the underlying provincial debt instrument. A derivative derives value from the impact of market changes on the underlying hedged debt instrument. All derivative instruments entered into by the province are recorded off–balance sheet, which is consistent with the Canadian Institute of Chartered Accountants' accounting guidelines for non–speculative hedge instruments.

The province also engages in commodity derivative hedging on behalf of the British Columbia Ferry Corporation. The objective of commodity derivative hedging is to reduce the financial risks associated with price volatility in the commodity market. As at March 31, 2003, the remaining notional amounts under commodity contracts totalled 122,000 (2002: 255,000) barrels of oil. Effective April 2, 2003 the contracts were transferred to British Columbia Ferry Services Inc. and will mature at various dates from May 31, 2003 to August 31, 2003.

The following tables present maturity schedules of the province's derivatives by type, outstanding at March 31, 2003, based on the notional amounts of the contracts.

Taxpayer–supported Debt

In Millions

Year of Maturity	Cross Currency Swaps	Interest Rate Swaps	Advanced Rate Setting Agreement	Total
	$	$	$	$
2004	510	6	200	716
2005	1,075	94		1,169
2006		895		895
2007	1,919	1,679		3,598
2008	1,305	200		1,505
6–10 years	2,599	1,598		4,197
Over 10 years	218	1,269		1,487
Total	**7,626**	**5,741**	**200**	**13,567**

As at March 31, 2003, the province has entered into an advanced rate setting agreement to lock in interest rates in advance of an expected bond issue. The hedging instrument is a Government of Canada bond, 5.75%, maturing June 1, 2029 with a notional amount of $200 million.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

20. Risk Management and Derivative Financial Instruments—Continued

Self-supported Debt

In Millions

Year of Maturity	Cross Currency Swaps	Interest Rate Swaps	Delayed Interest Rate Swap	Total
	$	$	$	$
2004		444		444
2005	279	75		354
2006		364		364
2007		300		300
2008		588		588
6–10 years	350	923	200	1,473
Over 10 years		100		100
Total	**629**	**2,794**	**200**	**3,623**

On behalf of the Columbia Power Corporation, the province entered into an advanced rate setting agreement to lock in interest rates in advance of a future non–recourse bond issue. The hedging instrument is a Government of Canada bond, 5.50 %, maturing June 1, 2010 with a notional amount of $50 million.

On behalf of British Columbia Hydro and Power Authority (BC Hydro), the province entered into a delayed interest rate swap to hedge the refinancing risk on a BC Hydro debt issue. Under the interest rate swap, the province pays a fixed semi–annual rate and receives a floating rate, starting June 21, 2004 and maturing December 21, 2012, on a notional amount of $200 million.

Interest rate risk

Interest rate risk is the risk that the province's debt servicing costs will fluctuate due to changes in interest rates. The province uses derivative contracts to manage interest rate risk by exchanging a series of interest payments, and assuming either a fixed or floating rate liability to a counterparty, based on the notional principal amount. Derivatives allow the province to alter the proportion of its debt held in fixed and floating rate form to take advantage of changes in interest rates.

The government's current policy guidelines, with respect to the provincial government direct debt portfolio, which totals $25,286 million (2002: $23,206 million), allow floating rate exposure up to 45.00% (2002: 45.00%) of this portion of the taxpayer–supported debt. At March 31, 2003, floating rate debt exposure was 40.61% (2002: 36.30%) of the government direct debt portfolio.

Under current policy guidelines for BC Hydro, the maximum floating rate exposure is 46.00% (2002: 35.00%) of their debt which totals $6,829 million (2002: $6,863 million). At March 31, 2003, floating rate debt exposure for BC Hydro was 38.40% (2002: 25.60%) of their debt.

Based on the taxpayer–supported and self–supported debt portfolios at March 31, 2003, a 1.00% increase in interest rates would result in an increase in the annual debt servicing expense of $100 million (2002: $87 million) for the taxpayer–supported debt portfolio and $25 million (2002: $34 million) for the self–supported debt portfolio.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

20. Risk Management and Derivative Financial Instruments—Continued

Foreign exchange risk

Foreign exchange risk is the risk that the province's debt servicing expense and principal payments will fluctuate due to changes in foreign exchange rates. The province uses derivative contracts to hedge foreign exchange risk by converting foreign currency principal and interest cash flows into Canadian dollar cash flows. Within specified limits set by policy, the province and provincial corporations may only assume unhedged exposure to US dollars and Japanese yen.

The government's current policy guidelines with respect to the provincial government direct debt portfolio, which totals $25,286 million (2002: $23,206 million), allow unhedged foreign debt exposure up to 10.00% (2002: 10.00%) of this portion of the taxpayer–supported debt. At March 31, 2003, unhedged foreign debt exposure in Japanese yen was 2.99% (2002: 3.16%) of the government direct debt portfolio. At March 31, 2003, there was no unhedged foreign debt exposure in US dollars for the government direct debt portfolio (2002: 3.45%).

Under current policy guidelines for BC Hydro, the maximum unhedged foreign debt exposure is 30.00% (2002: 44.00%) of their debt, which totals $6,829 million (2002: $6,863 million). At March 31, 2003, 25.20% (2002: 33.20%) of their debt was in the form of unhedged foreign debt in US dollars.

Based on the taxpayer–supported and self–supported debt portfolios at March 31, 2003, a one cent decrease in the Canadian dollar versus the US dollar would result in no increase (2002: $17 million) in the annual debt servicing expense for the taxpayer–supported debt portfolio and an increase of $15 million (2002: $32 million) in the annual debt servicing expense for the self–supported debt portfolio. A decrease of one yen versus the value of the Canadian dollar (for example, from 80 yen to 79 yen) would result in an increase to the annual debt servicing expenses of $2 million (2002: $1 million) for the taxpayer–supported debt portfolio.

Credit risk

Credit risk is the risk that the province will incur financial loss due to a counterparty defaulting on its financial obligation to the province. In accordance with the government's policy guidelines, the province reduces its credit risk by dealing with only highly rated counterparties. The province only enters into derivative transactions with counterparties that have a rating from Moody's Investors Service and Standard & Poor's of at least AA–/Aa3 or A+/A1 in the case of Canadian Schedule A banks. The province also establishes limits on individual counterparty credit exposures and monitors these exposures on a regular basis.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

21. Net Liabilities

The Statement of Change in Net Liabilities (*see* page 29) shows the net impact of applying the expenditure basis of accounting. The net liabilities calculation uses the expenditure, rather than the expense, basis of accounting. Under the expenditure basis of accounting, prepaid capital advances, tangible capital assets, prepaid program costs and other assets are recorded as expenditures when calculating the current year surplus or deficit. Under the expense basis of accounting, these items are recorded on the Statement of Financial Position as assets and amortized over an applicable period of time.

22. Tangible Capital Assets

	In Millions	
	2003	2002
	Net Book Value $	Net Book Value $
Land and land improvements	796	751
Buildings (including tenant improvements)	1,049	1,152
Highway infrastructure	6,161	6,185
Ferries and related infrastructure	431	580
Transportation equipment	2,087	2,084
Computer hardware and software	269	277
Other	157	177
	10,950	**11,206**

See Statement of Tangible Capital Assets on page 69.

The estimated useful lives of the more common tangible capital assets are: buildings (10–50 years); highway infrastructure (15–40 years); ferries and related infrastructure (5–40 years); transportation equipment (5–40 years); computer hardware and software (3–5 years); and other (including vehicles, specialized equipment, and furniture and equipment) (5–20 years). Land improvements are amortized over 30 years (recreation areas) or 40 years (dams and water management systems). Tenant improvements are amortized over 5 years or the length of the relevant lease term.

Included in tangible capital assets of British Columbia Transit (BCT) and of Rapid Transit Project 2000 Ltd (RTP) are capital assets under lease to Greater Vancouver Transportation Authority (GVTA). These capital assets under lease consist of land, land improvements, stations, guideways and other assets related to the SkyTrain system and West Coast Express. These assets are made available to GVTA for their use under the *Greater Vancouver Transportation Authority Act* and an Order in Council (OIC) enacted thereunder, and represent one of the province's contributions toward public transportation in the Greater Vancouver Regional District. The OIC–directed lease arrangements with GVTA and BCT are for one dollar per year under an initial fifteen–year term with additional five–year renewal periods upon the agreement of BCT and GVTA. The net book value of these assets is $963 million (2002: $977 million). A similar lease arrangement is anticipated with GVTA for the RTP assets.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

23. Prepaid Capital Advances

	In Millions	
	2003	2002
	$	$
Health facilities	2,953	2,835
Post-secondary educational institutions	2,401	2,295
Schools	6,475	6,209
	11,829	11,339
Accumulated amortization	(4,721)	(4,306)
	7,108	**7,033**

24. Prepaid Program Costs

	In Millions	
	2003	2002
	$	$
Prepaid program costs[1]	**132**	**126**

[1]Includes inventories of operating material held in the Purchasing Commission and Queen's Printer warehouses pending distribution in a subsequent fiscal year. Also includes inventories of supplies and other not for resale items held by taxpayer-supported Crown corporations and agencies and charged to expenses when consumed in the normal course of operations.

25. Other Assets

	In Millions	
	2003	2002
	$	$
Deferred debt instrument costs	122	119
Deferred treaty costs	23	26
Other deferred costs	3	11
	148	**156**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

26. Accumulated Surplus (Deficit)

	In Millions 2003	2002
	$	$
Accumulated surplus (deficit)—beginning of year as previously reported	(4,710)	(3,509)
Adjustments to 2001/02 accumulated surplus (deficit)[1,2]	(75)	32
	(4,785)	(3,477)
Adjustments made to accumulated surplus (deficit) due to changes in accounting treatment[2]		
Small Business Forest Enterprise program silviculture liability[3]		(129)
Federal Equalization Program adjustment[4]		125
Canadian Blood Services adjustment[5]		(19)
Accumulated surplus (deficit)—beginning of year as restated[2]	(4,785)	(3,500)
Surplus(deficit) for the year[2,3,4]	(3,169)	(1,285)
Accumulated surplus (deficit)—end of year	**(7,954)**	**(4,785)**

[1]In fiscal 2001/02, the opening accumulated deficit for 2001/02 was restated to apply changes in accounting treatment and correction of errors. These adjustments were made to include British Columbia Racing Commission in the reporting entity ($4 million), to adjust British Columbia Railway Company's unremitted earnings ($6 million), to report the province's proportional interest in an equity adjustment recorded by Canadian Blood Services ($20 million), and to correct miscellaneous errors ($2 million). The total impact of these changes had the effect of decreasing the 2001/02 opening accumulated deficit by $32 million (from $3,509 million to $3,477 million).

[2]In fiscal 2002/03, further restatements to the 2001/02 accumulated deficit were made to apply additional changes in accounting treatment and correction of errors. These changes increased 2001/02 opening accumulated deficit by $23 million (from $3,477 million to $3,500 million) and increased the 2001/02 deficit by $52 million (from $1,233 million to $1,285 million). The total impact of these changes has the effect of increasing the 2002/03 opening accumulated deficit by $75 million (from $4,710 million to $4,785 million). These restatements are described in footnotes 3, 4 and 5.

[3]This adjustment resulted from a change in recognition of silviculture liabilities arising under the Small Business Forest Enterprise Program. Silviculture costs were previously expensed as incurred. This change has the effect of increasing 2001/02 accrued liabilities by $113 million and decreasing the 2001/02 deficit by $16 million.

[4]This adjustment results from a change to the accrual method of accounting for the Federal Equalization Program. The revenue was previously reported on a cash basis. This adjustment has the effect of increasing the amount due from the Government of Canada by $57 million and increasing the 2001/02 deficit by $68 million.

[5]This adjustment results from a change to the consolidation method used by Canadian Blood Services related to its investment in CBS Insurance Company. This change has the effect of increasing trade accounts receivable by $1 million, decreasing other investments by $3 million, increasing prepaid program costs by $1 million, increasing accrued liabilities by $15 million and increasing deferred revenue by $3 million. There was no impact on the 2001/02 deficit.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

27. Contingencies and Commitments

(a) GUARANTEED DEBT

Guaranteed debt as at March 31, 2003, totalled $266 million (2002: $307 million). These guarantees include amounts where indemnities have been made for explicit quantifiable loans. *See* Statement of Guaranteed Debt on page 70 for details.

(b) CONTINGENT LIABILITIES

(i) Litigation

The province is a defendant in legal actions and is involved in matters such as expropriation compensation disputes and tax assessment appeals. These matters may give rise to future liabilities.

The province has the following contingent liabilities where the estimated or known claim is or exceeds $100,000, but the likelihood of payment is uncertain.

	In Millions	
	2003	2002
	$	$
Negligence and miscellaneous	38	1,025
Contract disputes	168	196
Damages to persons or property	157	130
Expropriation disputes	120	91
Timber harvesting rights disputes		31
Property access disputes	22	13
Motor vehicle accidents	2	10
Tax disputes	8	7
	515	**1,503**

When it is determined that it is likely that a liability exists and the amount can be reasonably estimated, the amount is recorded as an accrued liability (*see* Note 13) and an expense. The accrued liability for litigation at March 31, 2003 was $36 million (2002: $30 million).

(ii) Guarantees and Indemnities

The province also has contingent liabilities in the form of indemnities, indirect guarantees and outstanding claims for amounts that are not explicit or reasonably estimable at this time.

(iii) Environmental Clean-up

The province is responsible for the environmental clean-up of numerous contaminated sites in the province. For those sites where the province has possession, a liability of $145 million (2002: $145 million) has been accrued based on preliminary environmental audits. This liability is based on the minimum estimated clean-up costs for those sites where an estimate has been made and it has been determined that the government is liable. Estimated clean-up costs, not already accrued, for sites under evaluation are approximately $93 million at March 31, 2003. In addition, the Ministry of Energy and Mines has determined possible net liabilities of $308 million for sites the province does not own. Many other sites remain to be evaluated; the future liability for all environmental clean-up costs is not currently determinable.

(iv) Aboriginal Land Claims

Treaty negotiations between the province, Canada and First Nations commenced in 1994. The province anticipates that these negotiations will result in modern-day treaties defining the boundaries and nature of First Nations treaty settlement lands. As of March 31, 2003, there were 42 treaty tables in various stages of negotiation, representing two-thirds of the aboriginal people in British Columbia.

When final treaty agreements are ratified, the provincial cost of treaties is recorded in the Public Accounts. Costs are amortized over the same period as the period of capital transfers established in final agreements.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

27. Contingencies and Commitments—Continued

If a final treaty is negotiated on the basis of the 1999 Sechelt Agreement in Principle (AiP), Sechelt Treaty Land would amount to approximately 2000 hectares. The province would transfer $4 million (1998 dollars) in capital transfers over a number of years. Since the signing of the AiP, however, there has been little or no progress in negotiations and a final agreement is not anticipated in the near future.

Eighty percent of funding for First Nations negotiation costs is in the form of loans from Canada and is repayable from treaty settlements. The province has committed to reimburse Canada 50% of any negotiation support loans that default, along with 50% of the interest accrued. The earliest date at which the loans are expected to become due is 2006 and the amount of any provincial liability is not determinable at this time.

Some First Nations have chosen not to negotiate through the formal British Columbia Treaty Commission process. Several have commenced litigation claiming aboriginal rights and/or title over their asserted Traditional Territories and/or challenging provincial approvals regarding resource allocation and extraction on those lands. There are also several cases that challenge the province's exclusive ownership of roads that traverse reserves and seek compensation for the use of those roads. The result of these actions is not determinable at this time.

(v)Crown Corporations

The Insurance Corporation of British Columbia (ICBC) has settled some claims which require ICBC to provide claimants with periodic payments, usually for a lifetime. ICBC has purchased annuities to make these payments; however, if the annuities are insufficient, ICBC remains responsible. The gross amount of these settlements at December 31, 2002, was approximately $569 million (2001: $537 million).

The BC Transportation Financing Authority has contingent liabilities of $80 million remaining after deducting the estimated settlement expense currently accrued from gross claims outstanding for capital projects.

Powerex, a wholly–owned subsidiary of the British Columbia Hydro and Power Authority, has been named as a defendant in a number of lawsuits regarding alleged market manipulation of energy prices in the California wholesale markets. Estimates of claims against all market participants could reach several billion US dollars. Management cannot predict the outcome of the various claims; however, Powerex believes the terms of its sales were just and reasonable.

(c) COMMITMENTS

The government has ongoing operational and capital commitments to fund a variety of programs for public welfare including health, education, social services, protection of persons and property, and management of natural resources. Any significant non–operating commitments of less than five years duration and costing more than $50 million are detailed in this note.

(i)Restructuring plan

The province is in the second year of a three–year restructuring plan. In each year, associated costs are determined, included in the Estimates, and recorded in the financial statements.

(ii)Crown Corporations

The Insurance Corporation of British Columbia had $2 million in outstanding commitments related to the Central City development, whose estimated total development cost is $225 million.

The BC Transportation Financing Authority has a number of general commitments outstanding for ongoing infrastructure projects. The approved capital program for 2003/04 is $298 million.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

28. Revenue

	In Millions 2003	2002
Taxation revenue includes	$	$
Personal income	4,150	5,366
Corporation income	612	1,522
Social service	3,795	3,552
Property	1,520	1,461
Other	2,254	2,189
	12,331	**14,090**

See notes at end of the Schedule of Net Revenue by Source on page 88 for additional information on taxation revenue.

	In Millions 2003	2002
Investment earnings include	$	$
Warehouse Program	41	90
Other	599	721
	640	**811**

29. Expense

	In Millions 2003	2002
Interest expense by function	$	$
Health	152	154
Education	453	458
Transportation	138	108
Interest	1,494	1,663
	2,237	**2,383**

	In Millions 2003	2002
Total expense by group account classification	$	$
Government transfers	19,573	19,173
Salaries and benefits	2,521	2,726
Operating costs	2,570	2,654
Amortization	608	556
Interest	2,237	2,383
Other	676	657
	28,185	**28,149**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

30. Valuation Allowances

	In Millions 2003	2002
	$	$
Accounts receivable	152	157
Inventories for resale		25
Loans, advances and mortgages receivable	31	191
Investments	6	7
Other assets		2
Accounts payable and accrued liabilities		(44)
Taxpayer–supported debt		(173)
Tangible capital assets	84	171
	273	336

These amounts are included in Other in expense by group account classification in Note 29 and represent the write–down of assets and liabilities in the above Statement of Financial Position categories.

31. Comparison to Estimates

The Estimates numbers on the Statement of Operations are based on Schedule H of the 2002/03 Estimates (page 277), with certain adjustments to provide a proper comparison of Estimates to 2003 Actuals.

The following table shows the adjustments to conform to 2003 Actuals:

	Original Estimates 2002/03[1]	Crown reclassification[2]	In Millions Recovery Revenue[3]	Reallocation[4]	Restated Estimates 2002/03[5]
	$	$	$	$	$
Taxation	12,955		63		13,018
Natural resources	2,853		11	3	2,867
Fees and licences	2,299		33	75	2,407
Investment earnings	76		655	46	777
Miscellaneous	689		288	(41)	936
Net earnings of self–supported Crown corporations and agencies	1,651				1,651
Contributions from the federal government	3,094		233		3,327
Recoveries	1,160		(1,160)		
	24,777	0	123	83	24,983

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

31. Comparison to Estimates—Continued

	In Millions				
	Original Estimates 2002/03[1]	Crown reclassification[2]	Recovery Revenue[3]	Reallocation[4]	Restated Estimates 2002/03[5]
	$	$	$	$	$
Health	10,486		42	146	10,674
Social services	3,372	(194)	16	103	3,297
Education	6,893			43	6,936
Protection of persons and property	1,260	48	7	147	1,462
Transportation	1,577		21	7	1,605
Natural resources and economic development	1,244	(86)	11	39	1,208
Other	1,267	232		(402)	1,097
General government	474		26		500
Interest	1,854				1,854
	28,427	0	123	83	28,633
Surplus (deficit) for the year before unusual items	(3,650)				(3,650)
Forecast allowance	(750)				(750)
	(4,400)	0	0	0	**(4,400)**

[1]Per Schedule H of the 2002/03 Estimates.
[2]Reclassification of certain taxpayer-supported Crown corporations to different functions to more closely follow the presentation used by Statistics Canada.
[3]Allocates recoveries to specific revenue sources in accordance with their nature, and corrects recoveries.
[4]Reallocates revenues and expenses to more closely align Estimates with the actual amounts recorded.
[5]Per Estimated Statement of Operations, page 4 of the 2003/04 Estimates.

32. Trusts Under Administration

	In Millions	
	2003	2002
	$	$
Public Trustee and Official Administrators —administered by government officials	575	579
Supreme and Provincial Court (Suitors' Funds) —administered by the Courts	22	19
Credit Union Deposit Insurance Corporation of B.C.[1] —administered by various government officials and a non-government investment corporation	104	96
Other trust funds —administered by various government officials	43	45
	744	**739**

[1]Amount for 2002 included under Supplementary Information Schedule (Segregated Funds and Trust Funds Financial Statements) in 2001/02 Public Accounts.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

33. Workers' Compensation Board of British Columbia (WCB)

WCB administers the *Workers' Compensation Act*. Its main functions are promotion of occupational health and safety, compensation for occupational injury, death or disease, and rehabilitation of injured workers. WCB collects funds necessary for its operations from employers covered under the Act, and operates similar to a trust. It is excluded from the government reporting entity. The audited financial statements of WCB at December 31 reflect the following financial information:

	In Millions December 31 2002	December 31 2001
	$	$
Assets	8,078	8,467
Liabilities	8,225	8,043
Net Equity	**(147)**	**424**

	In Millions December 31 2002	December 31 2001
	$	$
Revenue	795	1,502
Expense	1,366	1,789
Surplus (deficit)	**(571)**	**(287)**

34. Significant Events

Government Restructuring

The province has stated its intentions to reorganize government. As part of the reorganization, the province will discontinue some operations and invite outside investors to participate in other operations. These include, among others, liquor distribution, rail operations and highway operations.

Discontinuation of British Columbia Railway Company Operations

British Columbia Railway Company (BCRC) approved a plan for the sale or discontinuation of non-strategic lines of business. As a result, BCRC decided to sell or discontinue certain operations, including the Canadian Stevedoring Company Limited (CSCL), Vancouver Wharves, Finlay Navigation and Passenger Services. BCRC sold the assets of CSCL on February 25, 2003 for proceeds of $105 million and a gain of $37 million. An estimated $65 million (2002: $60 million) loss on the disposal of Vancouver Wharves has been booked in the province's Statement of Operations. BCRC discontinued its passenger services in October 2002. The discontinued operations involved net assets of $23 million (2002: $157 million) which have been included in the province's equity in self-supported Crown corporations and agencies of $2,629 million (2002: $2,520 million). They also resulted in a net loss of $43 million (2002: $98 million) which was included in the province's net earnings of self-supported Crown corporations and agencies of $1,766 million (2002: $1,085 million). Additional restructuring is being considered.

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

34. Significant Events—Continued

Coquihalla Highway

On May 6, 2003, the province announced its intention to seek a private sector investor who will assume responsibility for the operation, maintenance and rehabilitation of the Coquihalla Highway between Merritt and Hope. Gross toll revenue for 2002/03 was $45 million; net book value of assets at March 31, 2003 for the Merritt–Hope section of the highway was $35 million for land and $212 million for improvements. Under the proposed arrangement, the BC Transportation Financing Authority would retain ownership of the Coquihalla Highway land and right-of-way. The financial effect of this proposed transaction on the province is not determinable at this time.

British Columbia Ferry Corporation

On March 26, 2003, the Legislative Assembly passed Bill 18—*Coastal Ferry Act*. This legislation provided for, among other things: (1) creation of the British Columbia Ferry Authority (BCFA); (2) the transfer of responsibility for coastal ferry service from the province to the BCFA on April 2, 2003; (3) conversion of British Columbia Ferry Corporation (BCFC) into a company under the *Company Act*; and, (4) repeal of the *Ferry Corporation Act*. BCFC changed its name under the *Company Act* to British Columbia Ferry Services Inc. (BCFSI) and the province transferred its responsibility for coastal ferry service to BCFA on April 2, 2003 by exchanging its voting shares in BCFSI for non-voting preference shares in BCFSI and promissory notes from BCFSI. The fair value for this exchange is estimated to be $503 million. A write-down of $77 million was recorded by the province in 2003 in anticipation of the transfer of ferry assets to BCFA. This was in addition to a $52 million loss on the sale of the three PacifiCat vessels. The province does not control BCFA and BCFA's sole purpose is to hold, administer or sell its voting share in BCFSI. The province retained ownership of the land by transferring it to BC Transportation Financing Authority at a market value of approximately $74 million.

The operations of BCFC will be excluded from the government reporting entity in 2004. The following summarized financial statements show the financial position and operations of BCFC for fiscal years 2003 and 2002:

Statement of Financial Position

	In Millions 2003	2002
	$	$
Financial assets	69	52
Liabilities	134	127
Net liabilities	(65)	(75)
Non–financial assets	568	624
Accumulated surplus (deficit)	**503**	**549**

Statement of Operations

	In Millions 2003	2002
	$	$
Revenue	490	473
Expense	519	496
Surplus (deficit) for the year	**(29)**	**(23)**

Notes to Summary Financial Statements for the Fiscal Year Ended March 31, 2003—Continued

35. Restructuring Exit Expense

Reported restructuring exit expenses of $169 million (2002: $224 million) do not include an additional $80 million (2002: $211 million) for restructuring exit expenses of government organizations that were consolidated using the modified equity basis. This consists of $37 million (2002: nil) for British Columbia Hydro and Power Authority, $28 million (2002: $6 million) for the British Columbia Liquor Distribution Branch, nil (2002: $165 million) for the British Columbia Railway Company, and $15 million (2002: $40 million) for the Insurance Corporation of British Columbia (ICBC). ICBC's amount for 2002 does not include an additional $41 million for which it was fully reimbursed by the Consolidated Revenue Fund. The $41 million was included as part of the 2002 reported restructuring exit expenses of $224 million.

	In Millions	
	2003	2002
Restructuring exit expense by function	$	$
Health	6	7
Social services	17	20
Education	2	48
Protection of persons and property	2	31
Transportation	14	16
Natural resources	69	57
Other	55	13
General government	4	32
	169	**224**

	In Millions	
	2003	2002
Restructuring exit expense by group account classification	$	$
Government transfers	16	74
Salaries and benefits	89	109
Operating costs	61	33
Other	3	8
	169	**224**

36. Comparatives

Certain of the comparative figures for the previous year have been restated to conform with the current year's presentation. These restatements have had no effect on the operating result as previously reported except as specifically noted.

Summary Financial Statements Reporting Entity for the Fiscal Year Ended March 31, 2003

Taxpayer-supported Crown Corporations and Agencies (Government Organizations) Recorded on a Consolidated Basis

Consolidated Revenue Fund[1]

Health Sector

B.C. Health Care Risk Management Society[2]
British Columbia Health Research Foundation[2]
Canadian Blood Services
Forensic Psychiatric Services Commission

Education Sector

Industry Training and Apprenticeship Commission
Private Post-Secondary Education Commission

Natural Resources and Economic Development Sector

552513 British Columbia Ltd
632121 BC Ltd[2]
634349 BC Ltd[2]
BC Immigrant Investment Fund Ltd
B.C. Pavilion Corporation
British Columbia Enterprise Corporation
British Columbia Racing Commission[2]
British Columbia Trade Development Corporation
Columbia Basin Trust
Creston Valley Wildlife Management Authority Trust Fund
Discovery Enterprises Inc
Land and Water British Columbia Inc
Oil and Gas Commission
Okanagan Valley Tree Fruit Authority[2]
Partnerships British Columbia Inc[3]
Science Council of British Columbia
Tourism British Columbia
Vancouver Trade and Convention Centre Authority

Transportation Sector

BC Transportation Financing Authority
British Columbia Ferry Corporation
British Columbia Transit
Rapid Transit Project 2000 Ltd
Victoria Line Ltd

Summary Financial Statements
Reporting Entity
for the Fiscal Year Ended March 31, 2003—Continued

Taxpayer-supported Crown Corporations and Agencies (Government Organizations) Recorded on a Consolidated Basis—continued

Protection of Persons and Property

British Columbia Securities Commission[4]
Organized Crime Agency of British Columbia Society[4]

Social Services Sector

B.C. Community Financial Services Corporation
Interim Authority for Community Living British Columbia[5]
Legal Services Society[4]

Other Sector

B.C. Festival of the Arts Society
B.C. Games Society[4]
British Columbia Arts Council
British Columbia Assessment Authority
British Columbia Buildings Corporation
British Columbia Heritage Trust
British Columbia Housing Management Commission[4]
First Peoples' Heritage, Language and Culture Council
Homeowner Protection Office[4]
Pacific National Exhibition[4]
Provincial Rental Housing Corporation[4]

Self-supported Crown Corporations and Agencies (Government Enterprises) Recorded on a Modified Equity Basis

BCIF Management Ltd
British Columbia Hydro and Power Authority
British Columbia Liquor Distribution Branch
British Columbia Lottery Corporation
British Columbia Railway Company
Columbia Power Corporation
Insurance Corporation of British Columbia
Provincial Capital Commission

[1] The Consolidated Revenue Fund has been allocated to the appropriate sector on the Statements of Financial Position by Sector (page 63) and Operations by Sector (page 65).
[2] These organizations were wound up during the fiscal year.
[3] This organization changed names during the current year. It was formerly known as Duke Point Development Limited.
[4] These organizations changed sectors during the fiscal year to conform with Statistics Canada sectoral definitions.
[5] This organization began operations during the fiscal year.

Summary Financial Statements
Statement of Financial Position by Sector[1]
as at March 31, 2003

In Millions

	Health	Social Services	Education	PPP[2]	Transportation	NR and ED[3]	Other[4]	General Government[5]	Debt Servicing	Adjustments[6]	Total
Financial Assets	$	$	$	$	$	$	$	$	$	$	$
Cash and temporary investments	18	7	1	26	27	110	(1,015)	3	1,149		326
Accounts receivable	85	49	28	165	37	418	32	1,285	352	(53)	2,398
Inventories for resale					10	180	28				218
Due from the Province of British Columbia					7	6	1			(14)	
Due from other governments	18	8	50	21	16	2	21	1			137
Due from self-supported Crown corporations and agencies						341		61			402
Equity in self-supported Crown corporations and agencies				319	371	1,929	16			(6)	2,629
Loans, advances and mortgages receivable	7	4	220	1	1	141	64	172			610
Other investments	20					210	44		54		328
Loans for purchase of assets, recoverable from agencies									10,691	(3,310)	7,381
	148	68	299	532	469	3,337	(809)	1,522	12,246	(3,383)	14,429

Summary Financial Statements
Statement of Financial Position by Sector[1] as at March 31, 2003—Continued

In Millions

	Health	Social Services	Education	PPP[2]	Transportation	NR and ED[3]	Other[4]	General Government[5]	Debt Servicing	Adjustments[6]	Total
Liabilities	$	$	$	$	$	$	$	$	$	$	$
Accounts payable and accrued liabilities	401	151	92	221	219	527	519	519	788	(54)	3,383
Due to other governments				51	5	2	23	244			325
Due to Crown corporations, agencies and funds	1					1	91	44		(1)	136
Due to the Province of British Columbia						5				(5)	
Deferred revenue	106	1	10	198	84	155	107		71		732
Unfunded pension liabilities								4			4
Taxpayer-supported debt	5	6		6	2,757	91	657	1	28,665	(3,317)	28,871
Self-supported debt									7,270		7,270
	513	158	102	476	3,065	781	1,397	812	36,794	(3,377)	40,721
Net liabilities	(365)	(90)	197	56	(2,596)	2,556	(2,206)	710	(24,548)	(6)	(26,292)
Non-financial Assets											
Tangible capital assets	82	33	10	77	8,924	636	1,071	117			10,950
Prepaid capital advances	1,670		5,438								7,108
Prepaid program costs	18	1		8	46	14	13	20	12		132
Other assets				23	13	1			111		148
	1,770	34	5,448	108	8,983	651	1,084	137	123	0	18,338
Accumulated surplus (deficit)	**1,405**	**(56)**	**5,645**	**164**	**6,387**	**3,207**	**(1,122)**	**847**	**(24,425)**	**(6)**	**(7,954)**

[1]Effective fiscal 2002/03, the Consolidated Revenue Fund was allocated to each of the specific sectors. It was previously shown as a separate sector.

[2]Protection of Persons and Property.

[3]Natural Resources and Economic Development.

[4]Includes housing, recreation and culture and other activities which cannot be allocated to the specific sectors.

[5]Includes the Legislature, tax collection and administration, CHST and equalization transfers from the federal government, liquor and gaming profits, general administration and central agency services such as accounting, auditing, budgeting, insurance and risk management to all sectors.

[6]Represents sectoral adjustments to conform to government accounting policies and to eliminate transactions between sectors.

Summary Financial Statements
Statement of Operations by Sector[1]
for the Fiscal Year Ended March 31, 2003

In Millions

	Health	Social Services	Education	PPP[2]	Transportation	NR and ED[3]	Other[4]	General Government[5]	Debt Servicing	Adjustments[6]	Total
Revenue	$	$	$	$	$	$	$	$	$	$	$
Taxation					305	39	62	11,925			12,331
Natural resources						3,281					3,281
Fees and licences	1,454	6	2	572	430	68	12	72			2,616
Investment earning	2	1	8	1	1	34	8	7	770	(192)	640
Miscellaneous	248	72	3	118	95	108	214	48	1	(3)	904
Contributions from the provincial government/self-supported Crown corporations and agencies				80	10	374	440	1,317		(455)	1,766
Contributions from the federal government	25	66	185	92	30	3	93	3,153			3,647
Total revenue	1,729	145	198	863	871	3,907	829	16,522	771	(650)	25,185

Summary Financial Statements
Statement of Operations by Sector[1]
for the Fiscal Year Ended March 31, 2003—Continued

In Millions

	Health	Social Services	Education	PPP[2]	Transportation	NR and ED[3]	Other[4]	General Government[5]	Debt Servicing	Adjustments[6]	Total
Expense	$	$	$	$	$	$	$	$	$	$	$
Government transfers	9,760	2,522	6,110	565	5	213	334	84		(20)	19,573
Salaries and benefits	296	381	38	519	385	468	168	266			2,521
Operating costs	380	205	324	295	670	561	436	35		(336)	2,570
Amortization	16	23	3	24	408	45	50	39			608
Interest					132	3	52		1,499	551	2,237
Other	258	20	483	16	276	257	15	109		(758)	676
Operating expense	10,710	3,151	6,958	1,419	1,876	1,547	1,055	533	1,499	(563)	28,185
Surplus (deficit) for the year before unusual items	(8,981)	(3,006)	(6,760)	(556)	(1,005)	2,360	(226)	15,989	(728)	(87)	(3,000)
Restructuring exit expense	(7)	(18)	(2)	(55)	(18)	(96)	(55)	(5)		87	(169)
Surplus (deficit) for the year 2002/03	**(8,988)**	**(3,024)**	**(6,762)**	**(611)**	**(1,023)**	**2,264**	**(281)**	**15,984**	**(728)**	**0**	**(3,169)**
Surplus (deficit) for the year 2001/02	**(8,845)**	**(3,348)**	**(6,790)**	**(857)**	**(1,024)**	**2,047**	**1,299**	**16,990**	**(757)**	**0**	**(1,285)**

[1]Effective fiscal 2002/03, the Consolidated Revenue Fund was allocated to each of the specific sectors. It was previously shown as a separate sector.

[2]Protection of Persons and Property.

[3]Natural Resources and Economic Development.

[4]Includes housing, recreation and culture and other activities which cannot be allocated to the specific sectors.

[5]Includes the Legislature, tax collection and administration, CHST and equalization transfers from the federal government, liquor and gaming profits, general administration and central agency services such as accounting, auditing, budgeting, insurance and risk management to all sectors.

[6]Represents sectoral adjustments to conform to government accounting policies and to eliminate transactions between sectors.

Summary Financial Statements
Statement of Self–supported Crown Corporations and Agencies
Summary of Financial Position
as at March 31, 2003

In Millions

	Utility	Insurance	Liquor	Transportation	Finance	Natural Resources	2003 Total	2002 Total
Assets	$	$	$	$	$	$	$	$
Cash and temporary investments	21	5,688	(2)	32	94	5	5,838	5,466
Accounts receivable	367	111	50	42	49		619	652
Inventories	88		65	83	6		242	324
Long–term investments	191	205					396	434
Tangible capital assets	10,028	92	37	876	31	15	11,079	10,830
Other assets	607	93	3	78	5		786	963
	11,302	**6,189**	**153**	**1,111**	**185**	**20**	**18,960**	**18,669**
Liabilities								
Accounts payable and accrued liabilities	1,010	4,520	144	233	123		6,030	5,791
Deferred revenue	1,070	1,350				4	2,424	2,287
Due to the Province of British Columbia	340				62		402	384
Long–term debt due to the Province of British Columbia	6,789			481			7,270	7,432
Other long–term debt	170		9	26			205	255
	9,379	5,870	153	740	185	4	16,331	16,149
Equity								
Investment by the Consolidated Revenue Fund	276			258			534	534
Unremitted earnings—end of year	1,647	319		113		16	2,095	1,986
	1,923	319	0	371	0	16	2,629	2,520
Total liabilities and equity	**11,302**	**6,189**	**153**	**1,111**	**185**	**20**	**18,960**	**18,669**

Summary Financial Statements
Statement of Self-supported Crown Corporations and Agencies
Summary of Results of Operations and Statement of Equity
for the Fiscal Year Ended March 31, 2003

In Millions

	Utility[1]	Insurance[2]	Liquor[3]	Transportation[4]	Finance[5]	Natural Resources[6]	2003 Total	2002 Total
	$	$	$	$	$	$	$	$
Revenue	4,451	3,023	1,890	304	1,796	4	11,468	13,149
Expense	4,087	2,943	1,236	300	1,133	3	9,702	12,064
Net earnings of self-supported Crown corporations and agencies	364	80	654	4	663	1	1,766	1,085
Contributions paid to the Consolidated Revenue Fund	(340)		(654)		(489)		(1,483)	(1,420)
Adjustments to contributions[7]					(174)		(174)	(149)
Increase (decrease) in untemitted earnings in self-supported Crown corporations and agencies	24	80		4		1	109	(484)
Untemitted earnings—beginning of year	1,623	239		109		15	1,986	2,467
Adjustment to untemitted earnings[8]								3
Untemitted earnings—end of year	1,647	319		113		16	2,095	1,986
Investment by the Consolidated Revenue Fund	276			258			534	534
Equity in self-supported Crown corporations and agencies for the year	**1,923**	**319**	**0**	**371**	**0**	**16**	**2,629**	**2,520**

[1]Utility—British Columbia Hydro and Power Authority and Columbia Power Corporation.
[2]Insurance—Insurance Corporation of British Columbia (ICBC).
[3]Liquor—British Columbia Liquor Distribution Branch.
[4]Transportation—British Columbia Railway Company.
[5]Finance—British Columbia Lottery Corporation and BCIF Management Ltd.
[6]Natural Resources—Provincial Capital Commission.
[7]This adjustment is for British Columbia Lottery Corporation transfers to charities and local governments which is shown as a recovery by the Consolidated Revenue Fund.
[8]These adjustments are for three items: (1) to record the earnings of British Columbia Railway Company for the period January 1 to March 31, 2003 ($6 million), which had not been recorded due to the change made in 2002 to use the April 1 to March 31 earnings when preparing the Summary Financial Statements, (2) Provincial Capital Commission recorded land contributed by Transport Canada as a direct increase to net assets ($2 million), and (3) these amounts are partially offset by an adjustment in Columbia Power Corporation that retroactively adjusted segregated trust account earnings ($5 million).

Summary Financial Statements
Statement of Tangible Capital Assets[1]
for the Fiscal Year Ended March 31, 2003

In Millions

	Land and Land Improvements	Buildings	Highway Infrastructure	Ferries	Transportation Equipment	Computer Hardware / Software	Other	2003 Total	2002 Total
Historical Cost[2]	$	$	$	$	$	$	$	$	$
Opening cost	824	2,017	9,872	1,270	2,494	774	414	17,665	17,201
Additions	90	50	267	35	72	110	35	659	945
Disposals and valuation adjustments	(47)	(146)	(18)	(223)	(3)	(132)	(62)	(631)	(481)
	867	1,921	10,121	1,082	2,563	752	387	17,693	17,665
Accumulated Amortization									
Opening balance	73	865	3,687	690	410	497	237	6,459	6,110
Amortization expense	5	58	286	36	69	106	48	608	556
Effects of disposals and valuation adjustments	(7)	(51)	(13)	(75)	(3)	(120)	(55)	(324)	(207)
	71	872	3,960	651	476	483	230	6,743	6,459
Net book value for the year ended March 31, 2003	**796**	**1,049**	**6,161**	**431**	**2,087**	**269**	**157**	**10,950**	
Net book value for the year ended March 31, 2002	**751**	**1,152**	**6,185**	**580**	**2,084**	**277**	**177**		**11,206**

[1]This statement includes assets that are held on capital leases at March 31, 2003, at a net book value totalling $65 million (2002: $76 million) which is comprised of: ferries $20 million (2002: $20 million); heavy equipment $4 million (2002: $4 million); and vehicles $41 million (2002: $52 million).

[2]Historical cost includes work-in-progress at March 31, 2003, totalling $220 million (2002: $427 million) which is comprised of: buildings $23 million (2002: $68 million); land improvements $7 million (2002: $7 million); highway infrastructure $106 million (2002: $126 million); ferries $22 million (2002: $12 million); transportation equipment $3 million (2002: $175 million); computer hardware/software $55 million (2002: $37 million); and specialized equipment $4 million (2002: $2 million).

Summary Financial Statements
Statement of Guaranteed Debt[1]
as at March 31, 2003

Guaranteed debt represents that debt of municipalities and other governments, private enterprises and individuals, and debt and minority interests of provincial Crown corporations and agencies, which has been explicitly guaranteed or indemnified by the government, under the authority of a statute, as to net principal or redemption provisions.

	In Millions	
	2003	2002
Taxpayer–supported Guaranteed Debt	Net Outstanding[1] $	Net Outstanding[1] $
Municipalities and other local governments		
Municipal Act debentures	1	2
Subtotal, municipalities and other local governments	1	2
Government services		
Homeowner Protection Act loan guarantees	98	88
Subtotal, government services	98	88
Health and education		
Financial Administration Act student aid loans[2]	54	90
Subtotal, health and education	54	90
Economic development		
Securities Act	1	2
Financial Administration Act		
Business Development Bank Guaranteed Program	3	
Emergency Credit Enhancement Program	7	11
Farm Distress Operating Loan Program	3	3
Feeder Association's Loan Guarantee Program	5	6
Miscellaneous guarantees each less than $1 million	1	1
Home Mortgage Assistance Program Act mortgages	15	18
Home Mortgage Assistance Program Act second mortgages[3]	1	2
Subtotal, economic development	36	43
Total taxpayer–supported guaranteed debt	189	223

Summary Financial Statements
Statement of Guaranteed Debt[1]
as at March 31, 2003—Continued

	In Millions	
	2003	2002
Self-supported Guaranteed Debt	Net Outstanding[2] $	Net Outstanding[2] $
Economic development		
British Columbia Railway Finance Act capital leases[4]	2	4
Subtotal, economic development	2	4
Utilities		
Hydro and Power Authority Act bonds and debentures[4]	87	93
Subtotal, utilities	87	93
Total self-supported guaranteed debt	89	97
Grand total, all guaranteed debt	278	320
Provision for probable payout	(12)	(13)
Net total, all guaranteed debt[5]	**266**	**307**

[1]Guaranteed debt includes gross principal debt less sinking fund balances, and represents the total amount of contingent liability of the government arising from relevant guarantees.

[2]The government enters into risk sharing agreements with the lending institutions that provide student loans whereby the province guarantees the repayment of specific unpaid student loans under certain circumstances. Lending institutions are required to provide claims evidencing that strict criteria have been met prior to the government providing payment.

[3]The British Columbia Second Mortgage Program was sold to the Bank of Montreal in June 1989, with the condition that the province will buy back any mortgages which may become uncollectible in future years.

[4]See the financial statements of Crown corporations and agencies for details of maturity dates, interest rates and redemption features of the outstanding debt of these Crown corporations and agencies and for details of derivative financial products.

[5]Debentures totalling $0.3 million (2002: $0.2 million) have been defeased and are considered extinguished for financial reporting purposes.

Appendix D

Office of the Auditor General: 2003/04 Reports Issued to Date

Report 1

A Review of Performance Agreements Between
the Ministry of Health Services and the Health Authorities

Report 2

Follow-up of Performance Reports, August 2003

These reports and others are available on our website at http://www.bcauditor.com

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